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## Japan's Postwar Economy



*Jerome B. Cohen*    ❁    ❁    ❁

J A P A N ' S  
Postwar Economy

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To Mina and Carla  
whose patience had of necessity  
to rise as mine ebbed



## Foreword

THE TIDE of world events has stirred Asia into a ferment of change. Japan particularly is influenced by the currents of political and economic change sweeping the East. As the most advanced industrial country in Asia, she of necessity is undergoing major readjustment in economic relations, East and West.

With a growing population of 90 million people, crowded in a land area about the size of California, Japan is extraordinarily dependent upon foreign trade. To feed and clothe this population, she must import food and raw materials in vast quantity and then export goods to pay for her purchases abroad.

Fortunately for Japan, postwar developments have moved toward a strong recovery in world trade. At home she has enjoyed a substantial measure of prosperity in recent years, due in part to United States military expenditures and a boom in trade following the outbreak of war in Korea.

To continue her essential economic growth, Japan must look abroad for new trade opportunities and sources of food and raw materials. And, naturally, she looks to the United States to increase the already large and mutually advantageous exchange between these two vigorously expanding economies.

Japan is the best single customer for United States farm products; the largest buyer abroad of our cotton, wheat, rice, and soybeans. In 1956, Japan received from exports to the United States only about half as much as she spent in the United States. Her much-publicized sales of cotton textiles in the United States amounted to less than 2 percent of our total output. These sales netted Japan \$84 million, compared with her purchase from the United States of \$170 million of raw cotton.

This disparity in trade with the United States illustrates Japan's problem of finding markets for her goods so that she can obtain the

foreign exchange needed to buy food and raw materials for her growing population and industry.

Both the United States and Japan have much to gain from development of trade with one another. The great potential in this trade offers incentive to both countries to work for mutual understanding. On both sides reasonable accommodations must be made to meet the needs of the other party.

In his report on Japan's postwar economy, Jerome B. Cohen directs attention to her great dependence on foreign trade and the opportunity which exists now for development of this trade with the United States.

He has written this book out of a wide range of experience and depth of knowledge gained from contact with Japan's problems in government and in his professional activities as an economist. It has been my privilege to work with him on a number of occasions.

His authoritative analysis of Japan's recovery from World War II, and emerging problems of the island economy in a fast-changing world, merits the attention of all who recognize the strategic importance of Japan in the East and in the world generally. Japan has provided a solid anchor in the fluid East. Her fortunes are matters of continuing concern for the United States as for Japan herself.

How Japan fares in coming years will have important bearing upon the prosperity of the United States and the world. It is to the interest of the United States, and to the community of nations, that Japan's problems be understood and that a satisfactory solution be found. And this book sheds timely light on the nature of the problems and the challenge.

JOHN D. ROCKEFELLER 3RD

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## Preface

ORIGINALLY the brief study that follows was intended merely to be an updating of my *Economic Problems of Free Japan* (Princeton, Center of International Studies, 1952). It was for this purpose that I was favored by a Rockefeller Foundation grant. But so much new material came to light, so many new trends and forces were apparent, that it seemed wiser to begin anew and write from the vantage point of 1957-58 rather than try to recast and redirect old thoughts and observations of 1950-51.

To avoid misunderstanding with a possible reviewer or two, I should hasten to state what this study is *not*. It is not a definitive study of the postwar decade, it is not an exhaustive study of the economy of Japan, it is not a detailed review and evaluation of the Occupation. It is simply a brief analysis of the nature of, and factors responsible for, Japan's economic recovery and of the economic problems which now confront Japan. It is not easy to survey a complex economy in a compact review. Of necessity some aspects and phases of the economy had to be omitted, others had to be treated more concisely than I preferred. But this was above all to be a short book designed primarily for busy American readers who had neither the patience nor the inclination to delve into anything as formidable as my earlier *Japan's Economy in War and Reconstruction* (University of Minnesota Press, 1949). That, indeed, ends where this, in point of time, begins.

It is a continuing source of bewilderment that so slim a product should have been the occasion of so much kindness and helpfulness by so many people. To acknowledge my indebtedness to all would be impossible, but some must be singled out for a very real and warm appreciation. Three—Mr. Roger Evans of the Rockefeller Foundation, Mr. Douglas Overton of the Japan Society, and Mr. Gaiji Kawashima of the Bank of Japan—bear a major responsibil-

ity. Mr. Evans and Mr. Overton urged the need for such a volume, encouraged its undertaking, provided funds, facilities, and continued support. Seldom has an author had such patient and understanding backing. Mr. Kawashima served as my research associate in Japan and never has such a stream of facts and figures flowed into an author's study. His unfailing tact and courtesy, willingness and helpfulness, even when I made onerous demands upon him, had to be experienced to be appreciated. I am indebted to Mr. John D. Rockefeller, 3rd, not only for his kindness in writing the foreword but also for his encouragement, over a long period of time, of my interest in Japan. My colleagues, Dr. William I. Greenwald and Mr. James I. Nakamura, provided very useful and helpful research assistance here in New York.

To Mr. Katsutake Hattori of the Mitsubishi Economic Research Institute in Tokyo; Professor Hugh Borton, formerly director of the East Asian Institute at Columbia University and now president of Haverford College; Professor William W. Lockwood of Princeton University; Professor Edwin O. Reischauer of Harvard; Professor Joseph K. Yamagiwa of Michigan; Mr. Suetaka Kuwabara, Director of Economic Research of the Yawata Steel Company, Tokyo; Professor Arthur Tiedermann of the College of the City of New York; Mr. Shuzo Watano, editor of *The Oriental Economist*, Tokyo; Messrs. Shigeo Matsumoto, Hiromu Yamamoto, and Tokusaburo Fujisawa of the Bank of Japan; Mr. Tristan Beplat of the Manufacturers Trust Company and Mr. August Maffrey of the Irving Trust Company; Mr. Reed J. Irvine of the Federal Reserve; Dr. Ralph J. Watkins of the Brookings Institution; Mr. Eugene Langston of the Japan Society; Professor Solomon B. Levine of the University of Illinois; Professor Warren S. Hunsberger of the University of Rochester; Mr. Takeshi Watanabe of the International Monetary Fund; Mr. David A. Kearns-Preston of the U. S. Department of Commerce; Dr. Philip Mosely and Mr. William Diebold, Jr. of the Council on Foreign Relations; Mr. Leland A. Randall of the International Cooperation Administration; Miss Thelma E. Vettel and Mr. Stanley Nehmer of the U. S. Department of State; and Miss Miriam S. Farley, production editor of Indiana University Press, I owe varying debts of gratitude and appreciation which can be acknowledged only in this most inadequate way. Naturally all these people

and many others tried in differing ways to keep me from making mistakes but it seems probable that I outwitted them and misused many a statistic and even an occasional fact.

JEROME B. COHEN

New York, N. Y.

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# I

## Asia, Japan, and the West

Where the mind is without fear and the head is held high;  
Where Knowledge is free;  
Where the world has not been broken up into fragments by narrow  
domestic walls;  
Where the words come out from the depth of truth;  
Where tireless striving stretches its arms toward perfection;  
Where the clear stream of reason has not lost its way into the  
dreary desert sand of dead habit;  
Where the mind is led forward by thee into ever widening thought  
and action—  
Into that heaven of freedom, my Father, let my country awake.  
RABINDRANATH TAGORE, "Gitanjali," 1912

ASIA is no longer taken for granted in the West. The shock of Pearl Harbor and the subsequent long, grueling war in the Pacific were but the crashing passages of an overture which has kept the attention of literate Westerners focused for more than a decade on the vast shifts in Asia. Seldom have so many changes, affecting half the world geographically, and all the world morally, spiritually, and materially, been concentrated in so short a period. The fall of the Japanese Empire; the Soviet advance in Asia; the British, Dutch and French retreat; the end of colonialism; the partition of the Indian sub-continent; independence for India, Pakistan, Burma, Ceylon, Indonesia, Cambodia, Laos, Vietnam, the Philippines, Korea, and Malaya; the collapse of Nationalist China; the dramatic retreat to Taiwan; the rise of Communism in mainland China; the crises over Kashmir; the civil wars in Burma; the Chinese seizure of Tibet; the controversy over New Guinea; the French debacle in Indochina; the Korean War, the intervention of the Chinese Com-

munists, and the recall of General MacArthur; the peace treaty with Japan; the Chinese Communist threat to Formosa; the civil war in Indonesia—all these major events and many lesser ones have kept the attention of the West riveted on Asia with a crucial fascination and an unparalleled interest.

The average Westerner, who before World War II, if he contemplated Asia at all, thought naively in terms of rickshaws and rice, chopsticks, and chow mein, now knows of Nehru, U Nu, Sukarno, Mao, Rhee, Ngo Dinh Diem, and Ho Chi Minh. He reads headlines summarizing their speeches, perhaps even the speeches themselves, agrees or disagrees, condemns or applauds, but no longer ignores, for he knows that what these Asians think and say and do has already affected and will, perhaps, affect even more in the future his way of life and his material well-being.

It is, of course, commonplace to observe today that colonialism is largely dead in Asia, though Asian leaders still use it as a whipping boy to belabor the West, and that a strident nationalism has taken its place, accompanied by a fierce desire for economic betterment, for a rapid and clearly evident improvement in levels of income and conditions of living. The techniques used and the rates of progress vary from country to country, but the striking characteristic that all the countries of free Asia seem to have in common is that they seek improvement by increasing their output of material things, not by seizing existing stocks from others. Economic development has replaced the old type of colonialism as the keynote of our time. Desperately requiring peace, unable to support the financial burdens or economic dislocations of modern war, a number of the countries of Asia, and indeed of the world, are increasingly apprehensive of the growing Communist imperialism on the one hand and the mammoth countervailing force of the United States on the other. This fear is reflected in the neutralist, third-force sentiment prevalent in parts of free Asia. It is manifested by a "plague on both your houses" attitude. That this neutralism has not become more widespread, despite Soviet and Chinese Communist encouragement, is perhaps due in part to the fact that most of the countries of free Asia have important economic ties to the West, which they cannot afford to cut or sacrifice if they are to achieve their goals of rapid economic betterment.

Free Asia may be defined as the vast arc of countries stretching



from Afghanistan around to South Korea, including Pakistan, India, Nepal, Ceylon, Burma, Thailand, Malaya, Cambodia, Laos, South Vietnam, Indonesia, the Philippines, Formosa, and Japan.<sup>1</sup> These 16 countries, together with Hongkong and Singapore, contain 810 million people, or 30 percent of the total world population, and 45 percent of the population of the free world.

Free Asia, plus Communist China, comprises approximately 1,572 million people in Asia, 55 percent of the population of the entire world. Of the world's seven most populous countries, five are wholly in Asia—China (618,000,000), India (387,000,000), Japan (90,000,000), Indonesia (84,000,000), and Pakistan (83,000,000).<sup>2</sup>

Asia's population is increasing at a rate of perhaps as much as a million a month, so that the absolute additions each year are very large. Asia has not, however, as many people think, exceeded the West in the rate of population increase over the last century. In 1850 the population of the world outside Asia was only half of Asia's. Today it is almost equal.<sup>3</sup>

In the light of the overriding power struggle of our times, it is interesting to note that the population of free Asia (810 million), largely neutralist and, in the main, uncommitted, is almost as large as that of the Soviet bloc (913 million).<sup>4</sup> If free Asia were to succumb to Communist ideology, governments controlling 65 percent of the world population, or almost two-thirds, would be overwhelmingly hostile to the West.

The combined income of the peoples of free Asia is only about \$60 billion, just one-twentieth of the world total—30 percent of total world population, yet only 5 percent of total income. The gross national product of the entire world is estimated at \$990 billion. Of this the United States accounts for over \$400 billion, producing more than 40 percent of the world's goods and services with only 6 percent of the world's population. Free Asia, with five times as many people as the United States, produces only one-sixth of U. S. output. Japan, with 3.4 percent of world population, produces 2 percent of total output of goods and services.

#### ECONOMIC IMPORTANCE OF FREE ASIA

That this region should lag so greatly in output is paradoxical, for it is rich in resources. Rice, of course, is its chief food product,

with output exceeding 100 million metric tons.<sup>5</sup> This is 87 percent of rice output in the free world and over 60 percent of total world rice production. Communist China is the only other major rice producer, accounting for about 28 percent of the world output. Japan is dependent upon South and Southeast Asia for approximately two-thirds of its rice imports.

Rubber leads the list of non-food agricultural products of the area. It dominates the exports of Indonesia and Malaya and accounts for a major part of the foreign earnings of Ceylon, Cambodia, Vietnam, Thailand, and British Borneo. About 94 percent of the world's natural rubber is produced in South and Southeast Asia. It is estimated that world rubber output exceeds 1.8 million tons while production of synthetic rubber is about 750,000 tons. Japan obtains all of its rubber from South and Southeast Asia.

Except for cotton, free Asia encompasses the world's main sources of agricultural and animal fibers. The area contributes 92 percent of the free world's supply of abaca (Philippines), 95 percent of its jute (India and Pakistan), 54 percent of its wool (if Australia and New Zealand are added to the area), and 60 percent of its kapok (Indonesia). It is the major source of the world's raw silk (Japan) and also accounts for 15 percent of the free world's cotton output (India and Pakistan). Japan imports most of its wool, flax, hemp, and jute from the area.

The region's output of mineral fuels and electric power in comparison with world output is very small (1.7 percent of crude oil, 3 percent of coal, and 6 percent of electric power generation). The Asian region's coal reserves are roughly estimated at 150 billion tons. Free world reserves are about 3,700 billion tons, of which 2,500 billion are in the United States. Japan is totally deficient in high-grade coking coal, essential for steel-making. Ordinary Japanese coal reserves are estimated at 20 billion tons, adequate but not abundant.

Petroleum production comes mainly from Indonesia and British Borneo. Proved oil reserves in Indonesia and North Borneo are estimated at about 3 billion barrels, somewhat less than 2 percent of the world's known reserves. Japan's crude oil output supplies less than 5 percent of its domestic requirements and known reserves are very scanty.

Free Asia has 6 percent of the world's total iron ore output but its

resources are unevenly distributed.<sup>6</sup> India has 80 to 90 percent of the region's known reserves. As a result of vast new discoveries, the total high-grade iron ore reserves of India are now estimated at 20 billion tons, compared with 6 billion for the United States. Japan obtains four-fifths of its total iron ore imports from the area. Its own reserves are very scanty and of low grade.<sup>7</sup> It is estimated that Japan must import about 8 million tons of iron ore annually to maintain industry at a level needed for 90 million people.

The region is well endowed in tungsten, manganese, and titanium, moderately in chromite and molybdenum, and poorly in other ferroalloy metals. The region is a prominent world producer (20 percent of the free world total) and exporter of tungsten ores, the main sources being Korea and Thailand (and Australia). The area supplies 41 percent of free world output of manganese. India is the world's leading producer of manganese ore and also the region's largest producer of ilmenite (titanium ore), supplying 28 percent of the free world total. The Philippines is one of the largest producers of chromite in the world, providing 13 percent of free world output. In the case of Japan, among the minerals necessary for ferroalloys, only chromite can be supplied to meet minimum needs.

In non-ferrous metals, the area has 72 percent of free world tin reserves. Malaya has been the world's largest producer of tin ore, while Indonesia is next in importance, followed by Thailand and Burma. Japan imports all its tin ingot from the area. In contrast with tin, on the other hand, the region produces little copper, lead, or zinc. If Australia is included, output of these minerals is 7, 19, and 15 percent respectively of free world totals. Japan has adequate supplies of zinc, substantial but inadequate deposits of copper, and a deficiency of lead.<sup>8</sup> No ore deposits for the making of aluminum are available in Japan. The country is insufficiently supplied with antimony, cobalt, nitrate, magnesite, platinum, potash, and salt,<sup>9</sup> and must import all its nickel and phosphate rock.

The region is the world's most important producer of graphite and mica. India has for many years been the world's largest producer of black mica. In recent years radioactive minerals have been discovered in the region. The biggest known deposits of thorium are along the Malabar Coast, in Kerala, India. Monazite reserves in India have been estimated at well over 2 million tons. Uranium-bearing ores have also been discovered in India, while important

uranium resources have been located in Australia. As yet no radioactive minerals appear to have been discovered in Japan.

As a result of the region's abundance of resources (except for Japan), about 35 percent of U. S. imports of critical and strategic materials come from free Asia. The area supplies half of our imports of chromite, 99 percent of coconut oil, 66 percent of manila cordage fiber, 90 percent of graphite,<sup>10</sup> 50 percent of kyanite, over 30 percent of manganese ore, 88 percent of mica, 37 percent of palm oil, 96 percent of natural rubber, 58 percent of sapphires and rubies, 95 percent of shellac, 13 percent of talc, 58 percent of tin, 10 percent of vanadium ores and concentrates, and 98 percent of pepper. In addition, the area supplies 95 percent of our burlap, 38 percent of cinchona bark, 20 percent of goat and kid skins, and 73 percent of tea.<sup>11</sup>

#### EXTENT OF INDUSTRIALIZATION

If experts had been assembled a hundred years ago and asked to forecast which country in Asia would be the most industrialized a century later, the country they would have been least likely to select was Japan. The Japan of the 1850's was a barren, backward country, largely shut off from the rest of the world for more than two centuries. Lacking in resources, its 35 million people eked out a scanty and precarious living from the seemingly inhospitable soil. So great was the pressure of population on the land at that time that infanticide was widely practiced by parents too poor to feed another mouth. Governed by local lords and retainers, many of whom were idle, unproductive, and unimaginative, the country was torn with dissension and lacked political stability or a constructive central government.

Yet a century later in this country an economic miracle had come to pass.<sup>12</sup> A vast economic transformation had made Japan the leading industrial country in Asia. In all of free Asia, only Japan and India have significant manufacturing capacity. In no country of the region except Japan does manufacturing contribute as much as 20 percent of domestic product. Asia produces only 5 percent of the world's crude steel, 10 percent of its cement, and has 20 percent of world cotton spinning capacity. Japan annually produces 11.1 million metric tons of crude steel, 4.8 percent of the world total, and India 1.7 million metric tons. Japan produces 13 million metric

tons of cement, 6.4 percent of the world total; India produces 5 million tons. Japan produces 47 million metric tons of coal, 3.2 percent of the world total; India 40 million tons.<sup>13</sup> In electric power Japan produces 72 billion kwh., 4.9 percent of the world total. India produces only 9.6 billion kwh. In cotton textile capacity, however, India exceeds Japan. India has 11.7 million cotton spinning spindles, Japan has 8 million,<sup>14</sup> which is 6.9 percent of world capacity.

Japan supplies a major share of the total industrial output of the region covered by the United Nations Economic Commission for Asia and the Far East (ECAFE). Japan produces 49 percent of the total coal output of the ECAFE area, 50 percent of the pig iron, 50 percent of the cement, 70 percent of the electric power, 66 percent of the steel, 35 percent of the cotton yarn, and 34 percent of the cotton fabrics.<sup>15</sup>

By what means and processes Japan transformed itself into the leading industrial country of Asia is a complicated story told so well elsewhere that it need not be detailed here.<sup>16</sup> The following table, however, highlights the long lead which Japan has over both China and India in industrial development.

PER CAPITA PRODUCTION OF MAJOR INDUSTRIAL ITEMS IN  
SELECTED COUNTRIES, 1956

ITEM AND UNIT	CHINA			JAPAN	UNITED KINGDOM
	Taiwan	Mainland	INDIA		
Electricity (kwh.)	244	25	25	802	1,695
Coal (kg.)	274	186	104	517	4,386
Steel ingot (kg.)	8	7	5	123	408
Cement (kg.)	64	10	13	145	252
Cotton yarn (kg.)	2.57	1.82	1.96	5.48	6.18

*Sources: Economic Bulletin for Asia and the Far East, U.N. Economic Commission for Asia and the Far East, Bangkok, Vol. VIII, No. 1, May 1957; Monthly Bulletin of Statistics, United Nations, July 1957; Population and Vital Statistics Report, United Nations, Vol. IX, No. 3, July 1957.*

Yet despite the extensive industrial development in Japan, when compared with Western countries the nations of Asia, including Japan and India, are far indeed from attaining the levels of industrial development reached elsewhere. Only 28 percent of Japan's net domestic product comes from manufacturing and mining as

compared with 49 percent for West Germany, 43 percent for the United States, and 41 percent for both the United Kingdom and the U.S.S.R. On the other hand, in Japan 20 percent of net domestic product is derived from agriculture, forestry, and fishing, as against 29 percent for the U.S.S.R., 11 percent for West Germany, 5 percent for the United Kingdom, and 6 percent for the United States.

The relative size of the Japanese economy compared with that of the United States and the U.S.S.R., as of 1956, may be seen from the following tabulation.

	United States	U.S.S.R.	Japan
Population	168	198	90
Labor force	69	108	43
Steel (mil. metric tons)	105	48	11.1
Pig iron (mil. metric tons)	69	36	6.3
Coal (mil. metric tons)	480	304	46.5
Oil (mil. metric tons)	354	84	0.3
Electricity (bil. kwh.)	601	192	72.1
Merchant fleet (mil. gross tons) <sup>a</sup>	24.0	2.7	3.7
Gross national product (bil. dollars)	414.7	151	24.7

<sup>a</sup> Seagoing steam and motorships of 1,000 gross tons and over as of December 31, 1956.

*Sources: Monthly Bulletin of Statistics, United Nations, August 1957; Statistical Handbook of the U.S.S.R., republished by National Industrial Conference Board, Studies in Business Economics, No. 55, New York, 1957; Economic Statistics of Japan, Bank of Japan, Tokyo, 1957; Soviet Economic Growth: A Comparison with the United States, Joint Economic Committee, 85th Cong., 1st Sess., Washington, 1957.*

While the figures are, of course, irregular, on the whole it would appear that the Japanese economy is about one-tenth the size of that of the United States and one-fifth that of the U.S.S.R.

When output is measured on a per capita basis in order to permit comparisons of countries regardless of size of population, we find that India produces .005 and Japan .123 metric tons of crude steel per capita as compared with .408 for the United Kingdom, .449 for West Germany, and .621 for the United States (data for 1956). In short, while Japan's per capita steel output is 25 times India's, it is only approximately one-fifth that of the United States and one-fourth that of either Great Britain or West Germany. In coal production, Japan, with 0.5 metric ton per capita, has five times the per

capita output of India (0.1 metric ton), but only about one-sixth that of the United States (2.9), one-fifth that of West Germany (2.6), and but one-ninth that of Great Britain (4.4). Even in electric power generation, where Japanese development is well advanced, while Japanese per capita output is 32 times India's (802 kwh. as compared with India's 25 kwh.), it is less than one-half that of the United Kingdom or West Germany (1,695 kwh. for the United Kingdom and 1,633 kwh. for West Germany), and only about one-fifth that of the United States (3,571 kwh.).

The per capita national income of Japan, although higher than in most Asian countries, is about one-ninth of that of the United States and lower than the lowest in western Europe. The annual income per capita in the United States was approximately \$2,038, in Great Britain \$982, in West Germany \$681, in Italy \$382, and in Japan about \$228 in 1956. A member of the so-called middle class in Japan earns about \$50 a month while his counterpart in the United States makes approximately \$500 a month.<sup>17</sup>

#### THE WEB OF TRADE

In the prewar period the metropolitan powers dominated the trade of their Asian colonies and possessions. The Philippines traded almost exclusively with the United States; what is now Indonesia with the Netherlands; the now independent countries of India, Pakistan, Burma, and Ceylon with the United Kingdom; Korea, Formosa, and Manchuria with Japan; Indochina with France.

Naturally the metropolitan powers wanted a market for their manufactures and a source of food and raw materials. To a considerable degree they achieved this pattern. They sold consumer goods and bought fuel, cotton, tin, rubber, jute, tea, sugar, rice, and oil-seeds. There was a minimum of intra-Asian trade. The political break with the past, which came after World War II, did not produce nearly so sharp an economic cleavage. New trends are discernible but old patterns still persist. India and Pakistan, Ceylon and Burma still trade extensively with Britain, though capital goods are now a larger component in imports, owing to development programs. Primary products, food, fuels, fibers, and other raw materials still predominate in the exports of the region (except Japan) but the percentage these represent of total exports is now down from four-fifths to three-fifths, and may be expected to di-

minish somewhat further as the Asian drive for industrialization progresses. No longer are Asian countries tied in trade to the major powers (except in the new case of Communist China and the Soviet Union). Intra-Asian trade has increased. About one-third of the region's trade is now within the region, and this can be expected to grow. For example, after India exhausts its sterling balances it is likely to buy more from Japan. As the Philippines and the United States gradually, over a decade, impose tariffs on each other's products, the former is likely to buy proportionately more in Asia and less in the West.

In the seven years 1950-56 free Asia absorbed about 10 percent of total world imports and was responsible for approximately the same percentage of total world exports. Of Asia's \$10 billion of imports in 1956, western Europe supplied some 30 percent, the United States 20 percent, and the Asian countries themselves 32 percent (of which Japan accounted for 10 percent). Of the \$8 billion of Asian exports, 28 percent went to western Europe, 18 percent to the United States, and 36 percent to the ECAFE countries themselves (with Japan absorbing 10 percent).<sup>18</sup>

Over the last half decade, free Asian countries supplied about 6 percent of western Europe's imports and took approximately 7.9 percent of western Europe's exports.<sup>19</sup> Of United States total imports, these Asian countries supplied 13 percent; they took 12 percent of total United States exports.

The trade of these Asian countries with the Soviet bloc has been negligible. In 1956 only 1.1 percent of their imports came from Iron Curtain countries, while 1.3 percent of their exports went to the Soviet bloc.<sup>20</sup> Trade with Communist China has also been small. Thus free Asia is linked to and dependent upon the non-Communist world for trade and payments viability. In turn, the loss of the \$5 billion market which the United States, western Europe, and Japan have in free Asia would be a serious blow. This would be especially true for Japan, which sends about 38 percent of its exports to free Asian countries and obtains 30 percent of its imports from them.<sup>21</sup> Free Asia is very important to the United States and western Europe. It is even more important to Japan.



## II

# Japan's Amazing Recovery

NANA-KOROBI YA-OKI

Seven times down, eight times up

SHORN of its pre-World War II possessions, Japan is now a small country. The 142,644 square miles of the four main islands and the small ones nearby give Japan a land area about the size of the state of California, and yet of this area only 15 percent is arable.<sup>1</sup> Into this relatively tiny fringe of land off the Asian mainland are crowded 90 million hard-working, energetic, and industrious people gravely handicapped in their struggle for subsistence by a frightening poverty of natural resources.

Indeed, Japan is an economic paradox. Once again the world's leading textile exporter, the country must import all of its raw cotton. Although the leading steel producer in Asia, Japan lacks coking coal and has little iron ore. Its large aluminum industry is wholly dependent upon imported bauxite. Japan's fertilizer industry is based largely upon imports of phosphate rock and potassic salt. Of the 33 metallic minerals used in industry, Japan has only 6. All the rest must be imported, as must about 95 percent of Japan's petroleum, 78 percent of the salt, and 20 percent of the food it consumes.

As Mr. Joseph M. Dodge, former financial adviser to General MacArthur and foreign economic policy adviser to President Eisenhower, put it succinctly: "The fundamental problem of the Japanese nation can be expressed in the simple terms of too many people, too little land and too few natural resources. These combine to press heavily on every circumstance of national life."<sup>2</sup>

Compare Japan and Canada. Japan's 90 million people are packed into 142,644 square miles; Canada's 16 million people occupy 3.6

TABLE II-1. JAPANESE NATIONAL INCOME, POPULATION, AND PRICES, 1930-1956

YEAR	NATIONAL INCOME (billion yen)				TOTAL POPULATION (thous.)	PRICE INDEX (1934-36 = 1.00)	NET NATL. INCOME IN 1934-36 PRICES (bil. yen)	REAL PER CAPITA NET INCOME (yen)
	Agriculture, Forestry, & Fishery, & Mining	Manufacturing & Construction	Services	Total				
1934-36 av.	3.2	4.1	7.1	14.4	68,647	1.00	14.4	210
1930	2.2	2.9	6.6	11.7	63,872	0.96	12.2	191
1931	1.9	2.7	5.9	10.5	64,870	0.84	12.5	193
1932	2.3	2.9	6.1	11.3	65,890	0.88	12.8	195
1933	2.9	3.3	6.3	12.5	66,880	0.95	13.1	195
1934	2.7	3.7	6.7	13.1	67,690	0.96	13.6	202
1935	3.1	4.2	7.1	14.4	68,662	1.01	14.3	208
1936	3.7	4.4	7.4	15.5	69,590	1.05	14.8	212
1937	4.2	5.1	9.3	18.6	70,040	1.15	16.2	231
1938	4.6	6.3	9.1	20.0	70,530	1.26	15.9	225
1939	6.8	8.1	10.5	25.4	70,850	1.51	16.8	238
1940	8.4	10.2	12.3	30.9	71,400	1.93	16.1	220
1941	8.1	13.0	14.4	35.5	71,600	2.14	16.7	234
1942	9.3	15.7	16.7	41.7	72,300	2.61	16.1	223
1943	9.5	18.8	19.8	48.1	73,300	3.01	16.1	219
1944	11.5	21.5	23.7	56.7	73,800	3.70	15.4	208
1945	—	—	—	—	—	—	—	—
1946 F	151.0	84.2	125.7	360.9	75,325	43.9	8.2	109
1947 F	373.1	247.1	348.3	968.5	77,983	111.1	8.7	112

1948 F	691.7	537.4	733.1	1,962.2	79,925	192.9	10.2	127
1949 F	820.6	810.2	1,107.0	2,737.8	81,708	232.9	11.8	144
1950 F	977.9	985.1	1,400.2	3,363.2	83,167	241.7	13.9	167
1951 C	1,238.9	1,293.5	1,822.6	4,355.0	84,217	286.9	15.2	180
1951 F	1,290.5	1,324.4	1,922.9	4,537.8	84,550	293.4	15.5	183
1952 C	1,431.8	1,374.3	2,229.2	5,035.3	85,483	299.2	16.8	197
1952 F	1,420.2	1,443.2	2,343.0	5,206.4	85,792	300.5	17.3	202
1953 C	1,418.5	1,613.8	2,703.0	5,735.3	86,683	315.8	18.1	209
1953 F	1,428.1	1,638.6	2,766.8	5,833.5	86,975	321.5	18.2	208
1954 C	1,467.0	1,738.8	2,803.0	6,008.9	87,933	327.7	18.3	208
1954 F	1,457.1	1,741.0	2,851.6	6,049.7	88,250	327.0	18.7	212
1955 C	1,605.2	1,864.1	3,105.3	6,574.6	89,025	327.2	20.0	225
1955 F	1,617.3	1,941.8	3,182.4	6,743.5	89,258	328.0	20.7	232
1956 C	1,650.3	2,264.7	3,542.0	7,457.0	90,300	335.6	22.1	245

F: Japanese fiscal year. C: Calendar year.

Source: *Kokumin Shotoku* [National Income] 1956 F. Y., Economic Planning Agency, Tokyo.

million square miles. Japan produced 11 million tons of ingot steel in 1956 (perhaps 13 million in 1957). Canada produced 4.8 million tons. But Canada's iron ore output was 11 million tons last year and is still growing. Japan, with ore sufficient to produce only one million tons a year, had to import nearly eight million. Despite a bumper harvest, Japan had to spend \$533 million for foodstuffs. Canada, on the other hand, sold \$974 million worth of agricultural products abroad.<sup>3</sup>

By aggression, Japan's militarists had hoped to secure permanent economic well-being through the creation of a "Greater East Asia Co-Prosperity Sphere" which would ensure markets for manufactures, an endless supply of essential and cheap raw materials, colonial posts for ambitious and hotheaded young men who might otherwise cause trouble at home, and space for migration to relieve the pressure of population. Ending as it did in disaster, Japan's bid for hegemony in eastern Asia not only failed to alleviate such problems, but in fact added to their intensity.

Japan, in losing its empire, lost 52 percent of its area, and with it the dream of integrated economic development. Its access to food and industrial raw materials—to oil and salt and iron ore and rice—became more, rather than less, restricted. Its administrators, colonists, soldiers, and adventurers came pouring back into the four home islands—over five million were repatriated in two years—and the Japanese population, 72 million at the time of surrender, has now grown to 90 million.

Japan's capacity to balance its payments by maximizing its exports of goods and services was shattered by the wartime destruction of its industry and shipping. Approximately 40 percent of the built-up area of the 66 cities attacked by air was destroyed, as was 30 percent of Japan's industrial capacity, 80 percent of its shipping, and 30 percent of its thermal power. Two-thirds of the prewar cotton industry, which had a capacity of 12 million spindles, was scrapped by the Japanese war administrators, and then bombing caused a further loss of some 20 percent in spinning capacity and 14 percent in weaving.

From the depths of defeat, destruction, and despair, Japan has, in one short decade, staged an amazing recovery. With one exception, all major economic indexes had by 1956 exceeded prewar peaks. The exception was trade, especially exports. Manufacturing

and mining output, which fell to 30 percent of the prewar level in 1946, had by 1951 exceeded it and by 1956 was twice as high. The increase in electric power generation was even greater. Even in the fields of agriculture, forestry, and fishery, where the growth of output is usually slow, all branches except sericulture surpassed the prewar level in 1950 and by 1956 were 30 percent above prewar levels. Real national income, which was reduced to less than 60 percent of the prewar figure in 1946, roughly recovered the prewar level by 1950 and by 1956 had surpassed it by 50 percent.<sup>4</sup> Real income per capita rose 46 percent between 1950 and 1956, and by the end of 1956 was 16 percent above prewar (1934-36) levels (see Table II-1).

TABLE II-2. INDEXES OF JAPANESE INDUSTRIAL ACTIVITY,  
1934-1956

(1934-36=100)

Year	Industrial Activity	Public Utilities	Industrial Production	Mining	Manufacturing
1934	89.9	90.9	89.8	92.0	89.6
1935	99.2	100.4	99.0	98.3	99.1
1936	110.3	108.7	110.5	109.7	110.6
1937	128.6	119.1	129.7	118.2	130.7
1938	141.1	130.3	142.4	126.0	143.7
1939	146.6	136.7	147.8	131.3	149.2
1940	147.9	140.4	148.8	142.7	149.3
1941	150.0	153.5	149.6	145.0	150.0
1942	145.6	154.5	144.5	140.7	144.8
1943	159.7	156.2	160.1	147.0	161.2
1944	176.2	154.4	178.8	138.5	182.1
1945	63.2	87.8	60.2	73.0	59.1
1946	39.2	109.1	30.7	52.2	28.9
1947	46.2	124.0	37.4	66.6	35.1
1948	61.8	137.9	54.6	80.3	52.5
1949	76.7	155.4	71.0	92.2	68.9
1950	88.0	168.1	83.6	96.9	82.0
1951	119.4	184.7	114.4	110.8	115.1
1952	131.8	201.2	126.4	114.2	128.2
1953	161.2	220.7	155.1	122.6	159.7
1954	173.5	236.9	166.9	117.0	173.8
1955	187.9	255.0	180.7	117.7	189.4
1956	227.4	294.8	219.1	129.7	231.3

Source: *Economic Statistics of Japan, 1956*, Bank of Japan, Tokyo, p. 203.

The average annual rate of growth for mining and manufacturing production during the ten postwar years has been 22 percent, as against about 9 percent in prewar days (see Table II-2). The rate of economic growth in terms of real national income has averaged more than 11 percent a year as compared with 3 to 5 percent prewar. From the outbreak of the Korean War to 1957, real national income rose 58 percent, industrial activity 158 percent, and employment 22 percent.<sup>5</sup>

The boom accelerated during fiscal 1956-57. Industrial production rose 23 percent during the year. If 1953 can be called a year of expanding domestic consumption and 1955 a year of expanding exports, then 1956 was a year of boom in domestic investment. Consumption rose by 4.7 percent, exports by 20 percent, while imports increased 40 percent. Private investment grew by 60 percent and private equipment investment by 80 percent. The government's estimate at the beginning of the fiscal year put the national income at 4.3 percent and industrial production at 7.2 percent above the previous year. Actually, however, the former increased by 13.9 percent and the latter by 23.4 percent. National income grew at a rate more than twice as great as that envisaged in the five-year plan, industrial production and exports three times as fast, imports more than five times as fast, and investment more than eight times as fast.<sup>6</sup>

Since 1950 Japan has had a more rapid industrial expansion than any other major manufacturing country, even greater than the remarkable recovery in West Germany's industrial output. This may be seen in Table II-3. Less of the expanded Japanese output was funneled into exports, however, than in the case of West Germany. Over the seven-year period Japanese manufacturing output rose 186 percent, compared with a 97 percent increase in West Germany. The latter, however, was able to expand its volume of exports by 200 percent as against Japanese expansion of 166 percent. In value terms, total world exports rose 65 percent between 1950 and 1957. Exports of the United Kingdom rose 45 percent, of the United States 86 percent, of Japan 200 percent, and of West Germany 272 percent.

The failure of Japanese exports to expand as rapidly as West Germany's may be attributed primarily to three factors, although there were a number of minor ones: (a) the vast inflation which

TABLE II-3. JAPAN AND WEST GERMANY, COMPARATIVE RECOVERY, 1950 TO 1956

(1953 = 100)

	1950			1953			1956			PERCENT CHANGE 1950-1956	
	West Germany		Japan	West Germany		Japan	West Germany		Japan	West Germany	
	Japan	Germany	Germany	Japan	Germany	Japan	Germany	Germany	Japan	Germany	
Volume of exports	78	55	100	100	100	208	165	166	+200		
Volume of imports	45	75	100	100	100	138	170	+206	+126		
Export prices	82	81	100	100	100	94	101	+14	+24		
Import prices	90	95	100	100	100	97	103	+7	+8		
Manufacturing output	51	71	100	100	100	146	140	+186	+97		
Mining production	79	83	100	100	100	106	115	+34	+38		
Wholesale prices	70	85	100	100	100	102	103	+45	+21		
National income	3,361	74.5	5,822	103.7	147.0	7,457.0	147.0	+121	+97		
	bil. yen	bil. DM	bil. yen	bil. DM	bil. DM	bil. yen	bil. DM	bil. yen	bil. DM		

Sources: *International Financial Statistics*, International Monetary Fund, June 1957, and *Monthly Bulletin of Statistics*, United Nations, September 1957.

gripped Japan during most of the postwar decade, (b) the consequent fact that it was more profitable most of the time to sell at home than abroad, and (c) production costs in Japan in many lines, particularly heavy goods and chemicals, were higher than those of competitors abroad, owing in part to obsolete techniques and equipment. All of these factors tended to overprice Japanese exports in world markets from time to time. Exports were the one major economic series which failed to recover prewar levels by the end of 1956, when they stood at 85 percent of the 1937 figure.<sup>7</sup>

Naturally several intriguing questions suggest themselves. How did this rapid recovery come about? Since no single simple answer is likely, what were the principal factors responsible for what Thomas E. Dewey<sup>8</sup> described as "one of the economic miracles in the history of the world"? Whether miraculous or man-made, why was the recovery more effective in Japan's domestic than in its foreign commerce? Why, that is, did exports lag behind and fail to regain prewar levels? Is the recovery firm and lasting? Has normalcy been regained or is Japan in fact, in the midst of a "fragile boom"? Are the difficulties that have been overcome major or minor, compared with those yet to be faced? Is the subtle aura of admiration for mutual accomplishment, emanating from both Tokyo and Washington, premature or justified?

It is possible to isolate certain factors and claim, with some degree of logic, that these things were especially helpful in promoting Japanese recovery.

First, the six billion dollars of U.S. funds poured into Japan during the postwar decade. Since the Japanese national budget provided for annual expenditures ranging from \$1.8 billion in 1950 to \$2.8 billion in 1956, this was pump-priming on a major scale. During the first half of the decade it took the form of \$2 billion of direct aid.<sup>9</sup> Over the last half of the decade—the period following the outbreak of the Korean War in mid-1950—it consisted of expenditures of \$4 billion for "special procurement," i.e. the purchase of supplies, equipment, services, and amusements for U.S. and U.N. troops in Korea, Japan, and the Ryukyus. This injection of dollar plasma helped to rehabilitate industry, balance Japan's payments for the decade, create purchasing power, and build a foreign exchange reserve. It also raised prices, a process in which the Japanese really needed little assistance.



Secondly, it was a decade of expanding world recovery and prosperity characterized by a high and rapidly growing level of world trade. What trade expansion Japan enjoyed did not have to come at anyone else's expense. As the pie grew steadily larger, each could have a bigger piece. Between 1938 and 1948 the volume of world exports rose only 1.4 percent. Between 1948 and 1957 world trade increased 77 percent in volume. Between 1937 and 1947 the volume of world industrial production rose 21 percent; from 1948 to 1957 it increased 58 percent. That Japan should share in, and benefit from, a decade of marked economic expansion was not surprising.

United States sponsorship constitutes the third factor in Japan's recovery. While in the early days of the Occupation, U.S. policy held that it was up to the Japanese themselves to repair the economic damage they had suffered as a result of the war they had started,<sup>10</sup> this was soon perceived to involve unrealistic assumptions. There followed a gradual reversal of the Occupation's role in Japanese economic affairs—at one point carried to the extreme of using Allied troops to enforce collection of both Japanese rice and taxes—and a wide turnabout in the U.S. view of the way Japan was to be treated. The immediate post-surrender attitude, that the magnitude of the crime at Pearl Harbor was so great that severe penalties should be imposed, gave way to the theory that Japan, defeated and weak, had to be restored to economic health so that it might cease to be a drain on the resources of the American taxpayer.

A very large number of economic measures were undertaken by the Occupation, ranging from direct aid to currency reform, tax revision, and establishment of a counterpart fund, the proceeds of which were to be used for rehabilitation of Japanese industry.<sup>11</sup> After the signing of the peace treaty in 1952, the United States government sponsored Japan's re-entry into world trade relationships, concluding reciprocal trade agreements with Japan, securing Japan's admission to the General Agreement on Tariffs and Trade, and using its own tariff concessions to other nations to secure favorable treatment for Japan. United States firms concluded a large number of technical assistance contracts with Japanese companies which enabled them to obtain the latest knowhow, patents, copyrights, and machinery and equipment, as well as training for their technicians. The U.S. International Cooperation Administration established a Productivity Center in Japan to help Japanese industries to become

more efficient and competitive. The U.S. Export-Import Bank granted a long series of revolving credits to Japan to enable it to buy American raw cotton on favorable terms. Under surplus commodity disposal agreements American wheat, barley, cotton, etc. were sold to Japan for yen, rather than dollars, and part of the yen were then loaned to the Japanese for economic development. The World Bank granted Japan a series of loans to rehabilitate, modernize, and expand its electric power and steel-producing facilities.

To what extent these and a host of related measures, too numerous to detail, aided Japanese recovery will be long debated both in the United States and in Japan, but it seems reasonably clear that the United States' positive and helpful attitude, in contrast, for example, to the negative, truculent, and restrictive activities of the Soviet Union, eased Japan's way over the difficult postwar decade.

The postwar world trend toward liberalization of trade policies, slow and limited though it may have been, was a fourth factor which was of some benefit to Japan. In 1938 Japan was responsible for 5.37 percent of total world exports. Its attempt to build back to this figure over the last decade—an effort which was only half successful, since Japan's exports in 1956 were but 2.74 percent of the world total—was eased to some extent by the activities of the International Monetary Fund, the General Agreement on Tariffs and Trade, and the International Bank for Reconstruction and Development, but handicapped by the painfully slow pace in the return to currency convertibility. While some nations continued to discriminate against Japanese products, the general international atmosphere of disapproval and discouragement of such restrictions undoubtedly lessened the discrimination which, in the absence of this international attitude, might have been much more severe.

The industrial boom, stimulated by the outbreak of the Korean War, was a fifth factor aiding Japanese recovery. By increasing Japanese industrial output to much higher levels than had been realized in the previous postwar years, it netted substantial profits for industry, which when plowed back raised the rate of capital formation in Japan to a new postwar high and permitted widespread replacement of obsolete and inefficient equipment. By raising employment and wage income to new high levels it led to a domestic consumption boom, which brought Japanese output to new peaks. Capital formation in Japan from 1950 on was substantially higher than in prewar years.<sup>12</sup>

Paradoxically, it seems likely that the alternation of several periods of inflationary expansion followed by periods of monetary restraint helped to achieve higher levels of output and employment for Japan. The inflationary excesses of the period from September 1945 to March 1949, while they perhaps created more problems than they solved, did help to lubricate the Japanese economic machine and start it functioning again. It also seems likely that the "austerity" program pursued by Mr. Dodge in 1949 and 1950 (until the outbreak of the Korean War) came just in time to prevent inflationary excesses from dissipating any gains which the monetary and fiscal acceleration had stimulated. The Dodge policy, therefore, consolidated Japan's economic position and provided a more solid and sound base from which to move forward again.

That the industrial expansion engendered by the Korean War, leading into the domestic consumption boom of 1953, carried output and employment to new high levels was as clear as the inflationary excesses it created. Consequently the classic sound money policy instituted in the fall of 1953 by the Yoshida Government and continued into 1955 was a much needed corrective, which by greatly improving Japan's monetary, fiscal, and price structure enabled the country to strengthen its international economic position and press on to new gains in this area.<sup>13</sup> It seems likely that the monetary and fiscal restraints imposed in 1957, brought on by the fact that Japan's domestic expansion in 1956 had run beyond its balance of payments capacity, would in turn provide necessary correctives, consolidate the economic base, and thus permit subsequent new advances. The policy of monetary and fiscal restraint of 1949-50, 1954-55, and 1957 may thus be regarded as a sixth factor contributing to Japan's economic recovery.

A seventh factor was the changed nature of the Japanese domestic market. Japan's prewar economy featured a limited domestic market, the result, in part, of low wages and limited farm income. This tended to focus attention of Japanese producers on foreign markets. The limited ability to sell at home, because of the low consuming power of the domestic market, forced them to look abroad. Low production costs, resulting in part from low wages, enabled them to surmount tariff barriers and penetrate foreign markets, especially in consumer goods.

Great changes have occurred in the Japanese domestic market over the past dozen years. The share of rent and interest in the

national income has fallen sharply, while that of compensation of employees and farm income have risen significantly. Rent and interest declined from 18 percent of national income before the war to 4 percent in recent years. The wage-earners' share of distributed national income rose from a prewar average of 38 percent to 48 percent in recent years, while that of farmers increased to a smaller extent.<sup>14</sup> Thus a redistribution of national product, adverse to the high-income, low-consumption, monied groups, and favorable to the low-income, high-consumption, wage-earning and farm groups, with their heightened propensity to spend on consumer goods, has enormously increased the absorptive capacity of the domestic market in Japan.

The high rate of capital investment is the ninth factor responsible for Japan's amazing postwar recovery. At first glance, this may appear to be a contradiction of the previous factor. If you have a redistribution of national income in favor of groups with a high propensity to consume, how do you at the same time attain a higher rate of capital formation? Part of the answer is that there is really no contradiction. A larger volume of sales in a market of greater absorptive capacity enhances aggregate profit and permits the plowing back into business investment of more substantial sums than when the total market was much smaller and restriction of output widely practiced. But there were also a number of special factors in postwar Japan which led to a higher rate of capital formation than before the war. Postwar Japan required a tremendous amount of investment, first to replace the facilities destroyed or damaged during the war, and then to keep abreast of technological advances and developments.

To finance this capital investment, which contributed so substantially to the growth of the Japanese economy in the postwar period, Japan had one negative and two positive advantages. Over the last decade Japan has been largely freed from the enormous nonproductive spending on armaments which, before the war, amounted to more than one-half of the annual national budget. As a result the government has been able in the postwar period to increase its investment activities in key industries—iron and steel, coal, electric power, and transportation. Furthermore, the inflationary expansion of credit which the government sponsored from time to time over the past decade, through the Reconstruction Finance

Corporation, the Bank of Japan, the Japan Development Bank, etc., was used in good part to finance capital expansion. Add to this the increased plowing back of a steadily rising aggregate volume of business profits, and the basis for Japanese postwar capital investment expansion would seem to be clear.<sup>15</sup>

Finally, perhaps the most basic factor in Japan's recovery was the attitude and knowhow of the Japanese people. Hard-working, industrious, firm in their determination to overcome poverty and devastation, they were familiar with industrial processes and with the techniques of foreign trade. Japan is not an underdeveloped country. The Japanese people know well how to produce goods and penetrate foreign markets. They did not need to learn these basic concepts from the ground up, as was true in much of the rest of Asia in the postwar decade. All they needed was a chance to apply their ingenuity and resourcefulness, and when this came to them at the end of the Occupation, along with fortuitous developments such as the Korean War boom and a favorable international atmosphere of expanding trade and declining restrictions, they simply put their knowledge to work. The encouraging economic results attest to the view held by careful observers of the Japanese scene, that in the context of a peaceful world, with expanding trade and rising standards of living, the Japanese will make their way.

Reviewing their accomplishments at the end of a difficult decade, a note of caution ran through many of the Japanese analyses. While the feeling was widespread that recovery from the immediate postwar chaos and confusion had been achieved and that Japan had successfully overcome its short-term temporary problems, it was also felt that the country would now need to face its longer-run, far more deep-seated and basic dilemmas, before indulging in unrestrained rejoicing.

In this vein the Japanese Economic Planning Agency\* declared:

The speed of Japan's postwar recovery has surprised all. It was fostered by the plodding industry of the Japanese and quickened by a favorable turn in the world situation. But sight should not be lost of the

\* This agency was originally called the Economic Stabilization Board. The name was changed in 1953 to Economic Counsel Board, in 1955 to Economic Planning Board, and in 1957 to Economic Planning Agency. Throughout this book it is referred to, in both text and citations, as the Economic Planning Agency.

fact that the very speed and depth of a defeat-induced downfall helped to quicken the speed of an uphill climb. And we were never lacking in the energy for the uphill climb. . . .

No longer are we in the "postwar" age, because our growth through postwar reconstruction is over. We are face to face with a new era. Our future growth will be sustained by transformation. Transformation, in turn, will be made possible only by a speedy yet stable economic expansion. . . .

We must begin now to adapt ourselves to the constant technological progress of the world and the transformation which that progress brings. Each day that we put off that effort will put us further behind the advanced nations in qualitative level—and bring those underdeveloped nations who are busy with industrialization efforts close to us in quantity level. . . .

Instead of celebrating our luck-borne quantity boom with song and dance, we must ride the international tide of transformation here and now for the future well-being of our country.<sup>16</sup>

The Japanese Ministry of Finance put it more tersely:

In ten years after the war the Japanese economy may be said to have at last got out of the period of disorder to be launched on the course of normal growth. The fact is, however, that normalization has just got underway, and there remain, it is needless to say, many problems still to be solved. The solution of long-term structural difficulties underlying the Japanese economy particularly depends upon steady efforts in the future. The most fundamental of problems is the increasing pressure of population and the difficulties from the problem of unemployment resulting therefrom.<sup>17</sup>

In a speech late in 1956 Mr. Ichimada, then Finance Minister, stressed two other factors of long-term concern:

With the encouragement and stimulus America gave us, we have made great efforts and progress toward recovery. Last year [1955] we were able to balance our international payments more or less even excluding the special dollar receipts resulting from American military spending in Japan. Compared with prewar times, our mining and industrial production has increased by two times and our national income by 50 percent. The standard of living has surpassed the prewar standard and we have come to a point in our recovery where it seems to appear that we have attained a self-supporting economy. However, Japan has to meet various foreign obligations arising from the war, such as reparations payments. . . . The payment of such external obligations is, as you will recognize,

a heavy burden on our national economy—a burden we must carry for quite a number of years. . . . Speaking briefly of my own country, I should say that the future of our national economy is not an easy one. For while the degree of our dependence on foreign trade is very great, the world trend today is toward greater economic competition.<sup>18</sup>

The London *Economist* noted:

Outwardly, Japan looks prosperous. Scarcely a village street lacks its radio and camera shops, and there is a fast growing nucleus of 350,000 television-viewing families. The Japanese spend £350 million on pachinko—a gambling game which is one of the national passions; 115 million gallons of beer flow down Japanese gullets annually; cinemas are going up at a rate of two a day to entertain one billion customers a year. Yet there is no inflation, for wages are rising more slowly than national product. This has been achieved by a prodigious effort; industrial production increased sharply last year and Japan is selling abroad seven times more ships and four times more textiles than in 1952. But the population is also increasing at a rate of well over a million a year, and if national product is to continue to keep pace with it, Japanese business men must concentrate increasingly on the manufacture of heavy industrial goods, and find markets to sell them in. At the moment, too much of Japan's trade is dependent on the export of consumer goods of the kind whose sale would be disproportionately hard hit by any world recession.<sup>19</sup>

The *Oriental Economist* remarked:

The growth in Japan's national income in 1956 was certainly remarkable. But it must not be forgotten that despite this phenomenal increase the per capita income level still remains one-ninth that of the United States and far below that of countries such as Britain, France and West Germany. Moreover, the rate of growth had an unfavorable effect on the balance of trade, which in turn has resulted in a series of measures to restrict credit.<sup>20</sup>

In a brief nutshell, the Economic Planning Agency summed up: "The 1956 Japanese economy started off with an unprecedented boom and ended with a foreign exchange crisis."<sup>21</sup>

## CONCLUSION

Thus responsible Japanese and foreign observers are more inclined, very sensibly, to look ahead to the economic problems of the future than to dwell on the achievements of the immediate past. It is

to a consideration of Japan's more deep-rooted problems that the following pages are devoted. These include:

- How to produce more food and fewer people.
- How to employ 800,000 more persons each year.
- How can Japanese export prices be made competitive with those of West Germany and of other countries?
- How can Japan sell a billion dollars more of exports abroad?
- How can Japan achieve stable economic growth without inflation?
- How can substantial additional industrial expansion be achieved without bringing on recurrent balance of payments crises?

Japan's future economic course must provide solutions, partial or full, in three broad areas. First, it must increase food output and limit population growth. The pressure of population on the land must be abated. That this can be accomplished seems clear from the experience of a number of European countries such as Belgium, the Netherlands, and Great Britain, which produce far less than 80 percent of the food they consume. Secondly, there must be further industrialization to absorb an expanding labor force. That this too can be accomplished also seems clear from the experience of western European countries. But, as in their case, it must be accompanied by an increasing participation in world trade. This is the third area. To employ more people, industry must expand. But this means greater imports of industrial raw materials. To earn the foreign exchange to pay for these, exports must grow. Both absolutely and relatively more of the product of Japanese industry must be sold abroad. This, too, ought to be possible if the volume of world trade continues to expand at least at the same rate as it has over the past decade.



### III

## People and Food

It may be that much less will be needed if we are prepared to live in cells like hens in a hen bank and be fed protein gruel piped in from the roof.—HENRY H. VILLARD<sup>1</sup>

THE POPULATION of Japan reached 90,700,000 in March 1957, making Japan third among nations in population density. Only the Netherlands and Belgium are more thickly populated.

Figures compiled in 1780 and 1846 indicate that the Japanese population remained comparatively stable at about 26 million for more than a century preceding the Meiji Restoration in 1868. The natural increase which multiplied the Japanese population by more than three times and brought it to the 90 million mark is therefore a development of the past century. In Japan, as in Europe, the increase in population accompanied the growth of modern industry.<sup>2</sup>

Japan's population in 1872, when the first national census was taken, totaled 34,800,000. By 1912 it had reached 50 million; by 1937, 70 million. Since the end of World War II the population of Japan has increased by 18 million. The magnitude of this postwar increase can be appreciated if one realizes that this figure exceeds the population of Canada and is twice that of Australia. Population experts predict that the country will pass the 100-million mark some time before 1970, after which the population will level off at about this figure.

It is not the rate of increase in the population, which is now lower than in the United States, but the gain in absolute numbers—about a million a year—added to the present 90 million, which, in relation to a very small arable land area, makes the long-run Japanese problem serious and difficult.<sup>3</sup>

The Japanese birth rate has declined considerably in the postwar period, and is now less than two-thirds the prewar rate. Yet the death rate has dropped even more drastically and is now less than half the prewar level. The decline in the birth rate was due in part to the enactment of the Eugenics Protection Law (July 13, 1948)<sup>4</sup> under which (a) the sale of contraceptives, banned by law up to that time, became legal, and (b) induced abortion was permitted if deemed necessary in the judgment of a designated physician and if the agreement of the expectant mother and her spouse was obtained. The latter provision was probably more effective than the former in contributing to the decline in the birth rate. The number of induced abortions rose from 246,104 in 1949 to 1,170,000 in 1955. Thus the rate of legal abortions jumped from 9 percent in 1949 to a startling 68 percent in 1955.<sup>5</sup> However, according to a Ministry of Welfare survey, "the proportion of Japanese families surveyed that practiced contraception reached 33.2 percent for the whole country, 37.2 percent for the urban areas, and 30.4 percent for rural districts."<sup>6</sup>

Japan's death rate is now down to that of Western countries. Although part of the decline may be attributable to the fact that a large number of invalids and persons of weak health died during and immediately following the war, the importation, and subsequent manufacture in Japan, of large supplies of new wonder drugs, and particularly the remarkable improvement in Japan's postwar public health facilities, are the main factors responsible for the sharp drop in the death rate.

Japan's birth rate is now lower than, and its death rate comparable with, those of such relatively unoccupied and sparsely populated countries as New Zealand and South Africa. In view of the marked decline which has already occurred, the birth rate cannot be expected to go much lower, and Japan will do well to hold to the present level over the next decade. Thus relief from the pressure of population on the land, through a further considerable decline in the rate of population growth, is not likely.

Japan's growth has made the problem of overpopulation even more acute than in the past. In 1935 each hectare,<sup>7</sup> or two and one-half acres, of arable land had to feed 14 persons. Today the same land area must feed 20 persons. Only one acre in each six is cul-

tivable. For each square mile of farm land, Japan has more than twelve times as many people to feed as the United States has.

In the century from 1860 to 1960, Japan's population will have tripled, but its area under cultivation will have increased only one-third. The area of cultivated land during the 1881-90 decade averaged 4.6 million hectares, or 12 percent of the total land area. The

TABLE III-1. RELATION OF POPULATION TO LAND IN ASIAN COUNTRIES

	TOTAL POPULATION <sup>a</sup> (thousands)	CULTIVATED LAND <sup>b</sup>			
		Area (thous. hectares)	Percent of Total Area	Percent of Cultivable Area <sup>c</sup>	Hectares per Capita
Afghanistan	12,000 (1951)	2,500	3.8	47.2	.21
Burma	19,434 (1955)	8,569	12.6	52.4	.44
Ceylon	8,588 (1955)	1,512	23.0	56.8	.18
China	582,603 (1953)	91,040	9.4	—	.16
India	377,000 (1954)	149,956	45.7	80.3	.40
Indochina	30,500 (1952)	8,520	11.5	47.3	.28
Indonesia	81,100 (1954)	11,000	7.4	—	.14
Iran	20,721 (1954)	16,760	10.3	33.7	.81
Iraq	4,948 (1954)	5,457	12.3	31.1	1.10
Israel	1,748 (1955)	359	17.4	54.5	.21
Japan	88,900 (1955)	5,095	13.8	—	.06
Jordan	1,384 (1954)	893	9.2	69.1	.65
Korea (South)	21,687 (1954)	1,950	20.7	—	.09
Lebanon	1,383 (1954)	270	26.6	40.3	.20
Malaya	6,059 (1955)	2,219	16.9	74.0	.37
Pakistan	80,167 (1954)	24,297	25.7	—	.30
Philippines	21,849 (1955)	5,938	19.8	51.2	.27
Syria	3,670 (1954)	4,034	21.9	58.0	1.10
Thailand	20,300 (1955)	4,750	9.2	—	.23
Turkey	24,110 (1955)	21,333	27.5	—	.88

<sup>a</sup> Latest official estimate.

<sup>b</sup> Arable land and land under tree crops; excludes permanent pastures and meadows and forested land.

<sup>c</sup> Cultivable area equals <sup>b</sup> plus unused but potentially productive areas.

Sources: *Demographic Yearbook, 1955*, United Nations; *Yearbook of Food and Agricultural Statistics, 1955*, U.N. Food and Agricultural Organization, Part I, Production.

cultivated area was enlarged steadily until 1921, when it reached 6.04 million hectares. This figure remained relatively constant until World War II, when some farm land was taken over for military purposes. Land available for crops in 1955 was estimated at 5.1 million hectares, or 14 percent of the total land area. If meadows and pastures are added to cultivated land the total rises to 17.4 percent of total land area. In striking contrast, 68.5 percent of the land area of the Netherlands falls in these two categories, 79 percent in Great Britain, 68 percent in Italy, and 58 percent in the United States. The mountainous nature of Japan's terrain renders most of it unfit for cultivation.

As a result, Japan has but 0.06 cultivated hectares per capita, the lowest figure for any Asian, African, or Latin American country. India has 0.40, China 0.16, Indonesia 0.14—six and a half, almost three, and two times as much, respectively, as Japan. The Asian comparisons are shown in Table III-1. Or, in slightly different terms, Japan had a population density of 4,519 persons per cultivated square mile to 1,657 for China, 953 for the Philippines, 1,826 for the United Kingdom, 527 for France, and 221 for the United States (see Table III-2).

The paucity of arable land and the high density of population per cultivated acre make for very small-scale farming. The average acreage under one farm household in Japan is only a little more than two acres, compared with 155 acres for the United States. About 72 percent of the six million farm households in Japan have farms of only one hectare or less.<sup>8</sup> These holdings are divided on an average into 15 to 20 scattered parcels, often including both paddy and upland. Fragmentation seems to have increased over the postwar decade. Although there has been an increase in the number of farm households since the war, the area under cultivation declined. Ultra-small farms with half a hectare or less increased in both actual number and percentage; farms with from one-half to one hectare rose slightly in percentage but showed a considerable increase in actual number, while farms of one hectare or more diminished both in actual number and in percentage.

The increase in the number of farm households has resulted in a reduction in unit size. The average size of the Japanese farm has fallen from 1.1 hectares before the war to 0.9 at present. While the growth of population in relation to the limited supply of arable

TABLE III-2. POPULATION DENSITY IN JAPAN AND OTHER COUNTRIES, 1955

	AREA		Total (thous.)	POPULATION Density (persons per sq. mi.)	
	(thous. sq. mi.)			Total Area	Cultiv. Area
	Total	Cultivated			
Japan	142	20	88,900	622.9	4,519.1
Australia	2,974	81	9,201	3.1	113.5
China <sup>a</sup>	3,759	352	582,603	155.0	1,657.4
France	213	82	43,300	203.3	526.9
Germany, West	94	34	49,995	529.2	1,486.1
Philippines	116	23	21,849	189.0	953.0
United Kingdom	94	28	50,968	541.0	1,826.1
United States	3,022	747	165,248	54.7	221.3

<sup>a</sup> Data for 1953.

Sources: *Monthly Bulletin of Statistics*, United Nations, May, 1956; *Yearbook of Food and Agricultural Statistics, 1955*, U.N. Food and Agricultural Organization.

land was undoubtedly a factor in reducing the average size of the Japanese farm, the main force was in all probability the land reform program begun in late 1946. The major features of this program were: (a) transfer of land ownership to farmers actually cultivating the land; and (b) improvement of farm tenancy practices for those who would continue to cultivate as tenants.

Prior to the land reform about 46 percent of the total cultivated land area was tenant-operated and about 67 percent of Japanese farmers rented all or part of the land they cultivated. Rents were high, ranging from 50 to 70 percent of the harvest. Debt was also high and interest rates were so exorbitant that total interest payments were as much as 25 to 30 percent of farm income. Under the land reform program nearly 65 percent of the cultivated land of Japan was purchased by the government for resale to tenant farmers. Since the terms were so favorable, the program met with an enormous response from tenants. As a result of the land reform, tenant-farmed land was reduced from 6.3 million to 1.6 million acres. According to the 1955 agricultural census, predominantly owner-operators constituted about 91 percent of all farmers, while tenant operators accounted for about 9 percent of farm families (see Table

TABLE III-3: OWNER-FARMER AND TENANT-FARMER HOUSEHOLDS, JAPAN, 1941, 1947, 1950, 1955

TOTAL FARM HOUSEHOLDS	OWNER-FARMER <sup>a</sup>		OWNER-TENANT-FARMER <sup>b</sup>		TENANT-OWNER-FARMER <sup>c</sup>		TENANT-FARMER <sup>d</sup>		OTHERS	
	No. (thous.)	%	No. (thous.)	%	No. (thous.)	%	No. (thous.)	%	No. (thous.)	%
Aug. 1, 1941	5,499	31.2	1,139	20.7	1,100	20.0	1,527	27.7	24	0.4
Aug. 1, 1947	5,909	36.5	1,183	20.0	997	16.9	1,574	26.6	1	0.0
Feb. 1, 1950	6,176	61.8	1,590	25.7	410	6.7	312	5.1	41	0.7
Feb. 1, 1955	6,042	69.5	1,308	21.6	284	4.7	239	4.0	11	0.2

<sup>a</sup> By "owner-farmer" is meant a farmer whose acreage worked is more than 90 percent his own.

<sup>b</sup> By "owner-tenant" is meant a farmer whose acreage worked is from 50 to 90 percent his own.

<sup>c</sup> By "tenant-owner" is meant a farmer whose acreage worked is from 10 to 50 percent his own.

<sup>d</sup> By "tenant" is meant a farmer whose acreage worked is less than 10 percent his own.

Source: Ministry of Agriculture and Forestry, Tokyo.

III-3). For the land remaining in tenancy there were provisions for written leases, rental ceilings, cash rentals, restrictions on land transfers, and other similar safeguards. More than half of the remaining tenant farmers now own a small piece of land. Landless tenants dropped to less than 5 percent of all farm operators.<sup>9</sup> A comparison of the 1950 and 1955 farm censuses shows that the trend toward ownership of farm land by the actual operator continued unabated after the completion of the land reform measures in 1950.<sup>10</sup>

In part as a result of the reform, the number of very small farms (less than one hectare) rose from 4,018,748 in 1946 to 4,293,100 in 1955. As compared with the 3.4 million farms of less than one hectare existing in 1941, there are now almost one million more of this tiny size.<sup>11</sup>

Despite the small size of the average farm, the average farm household consists of 6 persons, of whom 3 to 4 work directly on the land. Thus farm labor is supplied largely by members of the family, and only about 2 percent of the total farm households employ hired farm laborers. Small farms and large families mean that some members of the farm household must get their income from work other than farming, or at least supplement their farm income by other activities. Over 65 percent of Japan's farm households supplement their agricultural income by sidelines.<sup>12</sup> Only slightly more than a third are now able to earn enough income from agriculture to defray expenses without resort to outside activities. As one would expect, the smaller the farm the greater the resort to sidelines. For instance, farm households owning 0.5 hectare or less of farm land obtain only 30 to 40 percent of their income from agriculture.

Almost half (49 percent) of the Japanese population is engaged in agriculture, forestry, fishing, etc., and yet it obtains only about a fifth of the national product (see Table III-4). In contrast, the number employed in the primary industries in Great Britain is only 5 percent, in the United States 12 percent, and in West Germany 23 percent, and their share of national product is larger proportionately than in Japan.

This maldistribution of the national product is accompanied by serious underemployment in Japanese agriculture. In relation to output and income there are too many people on farms. The esti-

TABLE III-4. DISTRIBUTION OF JAPANESE NATIONAL PRODUCT BY ECONOMIC SECTORS, 1878-82, 1908-12, 1934-36, 1955, 1956

(percent of total)

	Av. 1878-82	Av. 1908-12	Av. 1934-36	1955	1956
<i>Primary</i>					
Agriculture, fishing, and forestry	64.6	44.4	19.8	22.4	20.2
<i>Secondary</i>					
Manufacturing, mining, and construction	10.6	22.5	30.8	30.6	32.5
<i>Tertiary</i>					
Services, merchandising, financing, etc.	24.8	33.1	49.4	47.0	47.3

Sources: Economic Institute, Hitotsubashi University, for 1878-1912; Economic Planning Agency, Tokyo, for 1934-36, 1955, and 1956.

mates of experts on the surplus farm population of Japan range from 3 to 6 million persons. Okasaki declares:

Because of the increase in the post-war agricultural population without an accompanying increase in the area of cultivated land, it was difficult to avoid a breakdown of the agricultural economy into smaller units and the consequent impoverishment of the farmers. On the basis of the existing area of land under cultivation, there is an overpopulation of some 5,000,000 in the present agricultural population.<sup>13</sup>

The Japanese countryside has traditionally been a refuge for city industrial workers in time of depression. A large proportion of the Japanese who work and live in industrial centers have family ties in the villages. When adversity strikes they return to the farm, where they can obtain at least shelter and a minimum of food at the cost of occasional labor. In the depressed days of the early thirties the jobless population of the urban areas poured into the farm districts, and farm households swelled despite the plight of the farmers. When preparations for war stimulated industrial employment in the middle and late thirties, the tide flowed back into the urban centers.

Toward the end of World War II many city workers lost their homes, or their jobs, or both, as a result of the air raids, and the trek back to the farms started again. It was accentuated after the



surrender by the virtual collapse of Japanese industry, together with the extreme food shortage in the cities. The production index in manufacturing, based on 1934-36 as 100, fell to 28.9 in 1946, while agricultural production, measured in the same way, declined only to 60.8. By 1950 the number of farm households was larger than ever before in modern Japanese history.

The effects of the war were less damaging to agriculture than to manufacturing, and the extreme food shortage in the years immediately after the war caused the prices of farm produce to soar; the ratio of farm income to total national income advanced to 31 percent in 1946. The index of real income in agriculture stood at 108.0 in 1946 (on the basis of the 1934-36 average) as compared with 50.0 for industry. In fact John D. Eyre declares: "The Japanese farmer has enjoyed greater prosperity during the past decade than during any period of similar length in modern Japanese history."<sup>14</sup> As a result of the postwar return to the farms, which has receded only slightly in the last five years, it is estimated that there are now 25 percent more persons engaged in agriculture than before the war, despite the fact that the acreage under cultivation has not increased.<sup>15</sup>

The Economic Planning Agency noted: "It is an important fact that the agricultural and farm population have increased 20 to 30% over the prewar figure and have become fixed at that high level."

Yet despite the large postwar increase in the agricultural labor force, Japan is, as a result of total population increase, further from feeding itself today than at any time in the past. In 1955, although a bumper rice crop set an all-time record, 27.2 percent of the foodstuffs and beverages consumed in Japan had to be imported.

Before World War II, Japan's food deficiencies were more than supplied by its empire areas, mainly Korea and Formosa, leaving some surplus for re-export, but in the postwar period it has had to import over five million tons of foodstuffs annually (5.81 million in 1954 and 1955, 5.7 million in 1956) at a substantial cost in foreign exchange. In 1955 food imports amounted to \$601 million, or one-fourth of total imports; in 1956 they totaled \$544 million.

Thus maximizing food production is one of Japan's most urgent problems. The elimination or significant reduction of Japan's food deficit would materially lighten the Japanese balance of payments, but the physical and economic barriers can be overcome only grad-

ually and in part. The Occupation's Natural Resources Section held that there were good prospects for increasing food output. It stated that 40 percent of the paddy field areas south of Tokyo that lie idle half the year could be double-cropped by the introduction of better irrigation, drainage, and flood control. On this 600,000 hectares, a million additional tons of grain could be raised every year. Of equal importance, it held, are steps that might be taken to reduce the annual loss of staple foods that is caused largely by preventable insect attacks and diseases. These losses, it was claimed, exceed 3 million metric tons, or some 20 percent of total production of staple foods.<sup>16</sup>

Japan has had many plans in the past for the attainment of self-sufficiency in food.<sup>17</sup> They have never been realized, partly because of lack of funds, but principally because they have been unrealistic and have failed to concentrate on the attainable. Since 1900 no Japanese administration has failed to give attention to the need for reclaiming land. With the tremendous influx of repatriates after the end of the war, as the growing food deficit became more urgent, greater stress was laid on this problem. The ten-year plan for increasing food production drafted by the Ministry of Agriculture and Forestry in 1951 was by far the most ambitious program yet contemplated, but events proved its unfeasibility, and it was later discarded. Nevertheless government expenditures channeled into agricultural public improvements have doubled since the prewar years, and the cumulative total area of land improved under government financing between 1946 and 1954 reached 1.7 million hectares.

The basic difficulty is that Japan has already accomplished the large gains in agricultural productivity and land utilization which the other, underdeveloped countries of Asia are now seeking to achieve. Japanese rice yields per acre, as Table III-5 indicates, are already among the highest in the world. Between 1880 and 1920 Japanese agriculture achieved a phenomenal 77 percent increase in output and doubled the productivity of farm labor, with relatively little capital outlay. This was done principally through the liberal use of fertilizer and the improvement of rice strains, but also partly through improvements in water and pest control and in cultivating, transplanting, and weeding.<sup>18</sup> These improvements carried Japan almost to the top rank of rice-growing countries.

With the bumper crop of 79 million *koku* in 1955 (one *koku*

TABLE III-5. RICE PADDY YIELD IN JAPAN AND OTHER COUNTRIES,  
1934-38, 1948-52, 1953-55

(100 kg. per hectare)

	Av. 1934-38	Av. 1948-52	1953	1954	1955
Spain	62.3 <sup>a</sup>	46.6	57.8	56.8	58.0
Italy	52.1 <sup>b</sup>	48.7	53.1	48.8	51.0
Australia	45.0	48.6	49.2	61.8	45.9
<i>Japan</i>	36.3	40.0	34.5	37.5	48.1
Egypt	34.9	37.9	36.6	43.7	52.0
China (Mainland)	25.2 <sup>c</sup>	21.6 <sup>e</sup>	34.9	24.7	n.a.
British Guiana	24.8	21.9	24.5	22.3	26.6
United States	24.7	25.6	27.7	28.2	34.3
China (Taiwan)	24.6 <sup>c</sup>	22.1	26.3	27.1	26.8
Korea, South	22.4	27.8	32.9	n.a.	27.9
<i>World Average (excluding U.S.S.R.)</i>	17.6	16.0	17.3	17.5	18.2
Indonesia	15.8	15.7 <sup>f</sup>	16.5	17.4	16.5
Pakistan	14.8 <sup>d</sup>	13.8	14.0	13.4	12.4
Brazil	14.3	15.7	13.7	14.8	15.0
Burma	14.1	14.1	14.0	14.8	14.8
India	13.6 <sup>d</sup>	11.1	13.5	12.2	12.6
Thailand	12.9	13.1	13.9	12.6	14.3
Madagascar	12.3	13.5	14.7	14.2	13.9
Philippines	10.9	11.9	12.4	12.1	11.9

n.a. = not available.

<sup>a</sup> 1931-35.<sup>c</sup> 1931-37.<sup>e</sup> Average of 2 years.<sup>b</sup> 1936-39.<sup>d</sup> 1936-38.<sup>f</sup> Average of 3 years.

Source: *Yearbook of Food and Agricultural Statistics, 1956*, U. N. Food and Agricultural Organization, Part I, Production. The prewar yield figure for Indochina ranked between Madagascar and the Philippines. Figures for 1953, 1954, and 1955, however, are either not available or unreliable for Cambodia, Laos, and Vietnam, and they are therefore not included.

is 4.96 bushels), and 69.7 million in 1956 (compared with 66.1 million in 1952, 54.9 million in 1953, and 60.9 million in 1954), due largely to extremely favorable weather conditions, particularly the almost complete absence of typhoon damage, Japanese yields rose close to Spanish, Italian, and Australian levels. That further advances can be obtained seems unlikely in view of the small size of the Japanese farm, which militates against further mechanization, as does the relative cheapness of family farm labor and the scarcity of capital in rural areas. The agricultural census of 1955 showed a farm population of 36,469,000 in 6,042,915 households (6.0 persons per household), with 4,293,100 households, or 72 percent of the total number, cultivating farms of one hectare or less. Another 2.8 percent operated farms of 1 to 5 hectares, and less than one percent had farms of 5 hectares and over.

Yet despite these tiny holdings there has been in the last decade a surprising growth in the degree of small-scale mechanization. According to the 1955 farm census, the number of farm households using the so-called Japanese tractor, the power cultivator, has risen from 18,560 (0.3 percent of the total) in 1950 to 455,610 (7.5 percent) in 1955. This is a 25-fold increase in five years. Before and during the war, mechanization of Japanese farming was limited to the processing of harvested rice and other grains. Only in the last decade has Japanese agriculture made use of mechanical means of plowing, tilling, and other cultivating operations. The use of powered threshers and hullers increased from 2,676,640 households (43.8 percent) in 1950 to 4,400,635 (72.8 percent) in 1955, indicating that power threshing has become the normal practice.<sup>19</sup> Power cultivators or tractor ploughs in Japan are generally powered by 5 horsepower motors and are far smaller than farm tractors used in the United States. Still they are four times more powerful than animal labor and eight times more efficient than manual labor.

This growth of small-scale mechanization was largely due to (a) the Occupation-sponsored land reform, which freed Japanese farmers from high rentals and thus enabled them to accumulate capital, (b) the improved financial position of farmers in the postwar decade resulting from high farm prices and increased production, and (c) long-term loans at low interest rates for the joint use of agricultural implements under the Agricultural Mechanization Promotion Law of 1953.<sup>20</sup> As a result the ratio of machine power

to all agricultural motive power, which was about 20 percent in 1935, has now reached 65 percent. It may therefore be said that improvements in the efficiency of agricultural machinery and tools and their popularization and adaptation to the needs of Japanese farmers represent one of the significant developments in postwar Japanese agricultural production. Yet it brings problems with it, for, as the Economic Planning Agency says:

Whereas in Europe and America, the agricultural population has generally drifted away from farming and the mechanization of agriculture has been developed to meet the resultant labor deficiency, in Japan the order is just the reverse. In Japan, the trend toward mechanization first comes about and then efforts are made to eliminate the labor saved as a result of this mechanization as well as to diversify management. This is not always easy, however, and is at present contributing to an increase in incomplete employment. Herein lies one of the problems of the recent trend toward agricultural capital intensification.

An increase in the use of agricultural chemicals against noxious insects and diseases is another conspicuous postwar trend. With the development of new products of high efficiency, the amount of investment in agricultural chemicals per *tan* (0.245 acre) has risen to about six times the prewar level. For example, the consumption by farm households of herbicide 2.4D, which eliminates weeds, has increased from 1.3 kilograms per *tan* in 1950 to 19.4 in 1955. All in all farmers' purchases of production goods are about double the prewar volume.

The contribution of livestock to per capita daily caloric intake is lower for the Japanese people than for any other nation. It is lower even than that of India, where the Hindu taboo against killing cattle keeps meat consumption at a low level. Of the six million agricultural households, it is estimated that over half are at present without livestock. The scarcity of arable land, the lack of grazing land in the primary farming regions, and the relatively high cost of imports of feed concentrates handicap the expansion of animal husbandry. Japan has only one-quarter as many cattle and one-thirtieth as many sheep as the United Kingdom. To remedy the situation the government secured the passage of the Livestock Improvement and Increase Law in 1950, and since then there has been some increase in the livestock population on Japanese farms. For example, be-

tween 1950 and 1955 the number of milk cows kept by Japanese farm households doubled, yet even then only 4.2 percent of Japanese farm households kept milk cows. Japan is still behind other nations in livestock development.

The Japanese people derive approximately 85 to 90 percent of the animal protein in their diet from fish. Fish consumption is higher per capita in Japan than in any other country. The average Japanese consumes 102 grams of fish products daily, compared with 57 grams in Norway, 36 in England, 18 in France, 15 in Canada, and 14 in the United States. In prewar years the production of Japanese fishermen averaged 9.3 billion pounds, double the catch of the United States, which ranks second among fish-producing nations. Destruction of the fishing fleet and restrictions placed on the fishing grounds greatly reduced the catch in the immediate postwar years. The limitations of the "MacArthur line," restricting Japanese fishermen in waters near Korea, were removed in April 1953, but Japan subsequently encountered drastic limitations imposed by South Korea, Communist China, and the Soviet Union.<sup>21</sup> Despite these, however, the fishing fleet has now been rebuilt (1.3 million gross tons in 1955 compared with 526,000 gross tons in 1934-39) and the total fishing catch increased to 1.15 billion *kan* (a *kan* is 8.27 pounds) in 1956, 30 percent above the prewar peak (see Table III-6). Japan is once again the world's most active fishing nation,

TABLE III-6. JAPANESE FISHERY CATCHES, 1930, 1935, 1940, 1945-1956

(thousand *kan*<sup>a</sup>)

Year	Catch	Year	Catch
1930	773,752	1948	616,095
		1949	640,528
1935	968,932	1950	790,380
		1951	935,136
1940	887,906	1952	1,191,174
		1953	1,136,854
1945	445,918	1954	1,122,671
1946	528,018	1955	1,192,881
1947	552,510	1956	1,149,987

<sup>a</sup> One *kan* is equivalent to 3.75 kg. or 8.27 pounds.

Source: Ministry of Agriculture and Forestry, Tokyo.

with a catch almost double that of the United States, which ranks second. Owing to the increase in population, however, Japan's per capita consumption and its exports of fish were both, at the end of 1956, still below prewar levels.

In addition to the problems of international restrictions and seizure of fishing vessels by unfriendly nations, the Japanese face the problem of depletion of fish in coastal waters. The Japanese fishing censuses, taken over intervals of five years, indicate that between 1949 and 1954 the percentage of the catch taken by small-scale fishermen operating with non-motor-driven vessels, or with motor-driven vessels of less than 3 gross tons, fell from 28 to 17 percent, while that of the large fishing companies increased from 19 to 25 percent. Thus the small marginal fisherman is being forced out of the industry. The government is now turning its attention to this problem. Just what, if anything, can be done remains to be seen.

#### CONCLUSION

The overall picture of food in relation to population is difficult and perplexing. Japan cannot feed itself.<sup>22</sup> The percentage of food it must import has been increasing. The large annual cost is a severe drain on its balance of payments. There is vast overpopulation and underemployment on Japanese farms.<sup>23</sup> In contrast with the trend in most countries, where farm population has declined since before the war, in Japan it has increased.

Just as Japan cannot feed itself, the average Japanese farmer cannot live off his farm. He must supplement his income from outside activities and the larger part of the increase in his income in recent years has come from these activities rather than from farming (see Table III-7). The number of farms has increased, but land under cultivation has decreased. The size of the average Japanese farm, already tiny, has declined.

Although the Japanese rice output and fish catch reached new peaks in 1955 and 1956, the steady growth of population creates an ever-expanding need, which steadily becomes more difficult to meet because the limits of arable land, of yields per acre, and of fishing grounds seem close at hand. From an economic point of view, consolidation of landholdings and increased mechanization, accompanied by the draining off of the surplus agricultural population into expanded industry or overseas migration, would seem logical,

TABLE III-7. JAPANESE FARM INCOME AND EXPENDITURES,  
1934-36, 1949-1956

	Av.									
	1934-36	1949	1950	1951	1952	1953	1954	1955	1956	
Percent of income:										
From agriculture	79	72	68	69	66	62	64	68	66	
From other activity	21	28	32	31	34	38	36	32	34	
Percent of expenditures:										
Household expenses	78	91	81	81	81	81	81	77	78	
Taxes	7	16	10	9	8	7	7	8	8	
Surplus	15	-7	9	10	11	12	12	15	14	

Source: *Survey of Farm Economy, 1957*, Ministry of Agriculture and Forestry, Tokyo.

but this would be very difficult to achieve. The current prosperity of Japanese farmers is somewhat deceptive, for it conceals maladjustments which may at some future time cause a good deal of trouble, as they did in the early thirties.



## IV

# Income, Output, and Employment

RYOYAKU WA KUCHI NI NIGASHI

Good medicine tastes bitter

CAN THE Japanese economy expand sufficiently over the next decade to absorb into industrial pursuits not only the present 3 million surplus farm population<sup>1</sup> and the 1.3 million surplus commercial and service workers, but also the 800,000 to 900,000 new entrants to the labor force who annually seek employment for the first time?<sup>2</sup> In brief, can Japan find employment in the so-called "secondary" sector of the economy for a minimum of 8 million or a maximum of 12.3 million more persons by 1965?

As one recent Japanese survey stated succinctly: "Limited land, scarcity of resources and a huge population are the fundamental conditions on which Japan's national economy is built and is operating. Industrialization is thus of vital importance for Japan's national survival as a modern nation."<sup>3</sup>

The best measure of the overall economic growth of a country is net national product in constant prices—the value of the annual flow of goods and services after allowances for materials and assets consumed in the process of production. According to the latest, and apparently best, estimates available, Japanese net product measured in 1928-32 prices rose from 1,784 million yen in 1883-87 to 14,564 million yen in 1933-37, an eight-fold increase in five decades.<sup>4</sup> Over the same period population doubled, rising from 39 million in 1885 to 69 million in 1935. Although the statistics are unreliable, it appears that the number gainfully occupied rose from 19,872,000 in 1880 (81 percent in agriculture, fishing, and mining; only 13 percent in manufacturing, construction, commerce, and transport) to 32,483,000 in 1940 (46 percent in agriculture, fishing, and mining; 39 percent in manufacturing, construction, commerce, etc.). Since

the labor force in agriculture, fishing, and mining fell slightly from 16.1 million in 1880 to 14.9 million in 1940, it appears that the 716 percent increase in Japan's net product was accompanied by a 460 percent increase in employment in manufacturing, construction, transportation, commerce, etc., and a 7 percent decrease in primary sector employment.

In the light of these figures one can appreciate the startling magnitude of the task Japan faces in attempting to add 8 million to a 1956 labor force of 42.3 million and, at the same time, to shift 3 million from the present agricultural labor force of 14.5 million to the present non-agricultural labor force of 27.3 million and to shift 1.3 million from trade and services.<sup>5</sup> Can Japan's total output of goods and services be expanded sufficiently over the next decade to add from 8 (minimum) to 12 (maximum) million new jobs to the present 27.3 million non-agricultural employment total?

The recovery in Japanese income and output in the postwar decade has been impressive. National income (in constant prices) rose 32 percent between 1930 and 1940. From 1941 to 1946 it fell by 50 percent. From 1946 to 1957 it rose by 170 percent. The 1956 figure represented a nominal gain of 13.4 percent over 1955, but because of the rise in commodity prices during the year the real gain amounted to 10.3 percent. Allowing for population growth, the real per capita increase in national income in 1956 was 9.2 percent. In comparison, the figures for 1955 were 9.4 percent nominal increase over 1954, 9.6 percent real increase (because of a slight drop in commodity prices during 1955), and, allowing for population, an 8.4 percent increase in real per capita income. Thus the extent of the gains in 1955 and 1956 becomes clear.

This is made even more apparent when the 1955-56 figures are compared with historic rates of development both in Japan and elsewhere. In Japan, the index of per capita national income in constant (1928-32) prices is estimated to have moved as follows:<sup>6</sup>

1878-82	100
1888-92	137
1898-1902	189
1908-12	220
1918-22	270
1928-32	400
1938-42	526

TABLE IV-1. JAPANESE NATIONAL INCOME AND GROSS NATIONAL PRODUCT, 1934-36, 1950, 1952-1956

	Av. 1934-36	1950 <sup>b</sup>	1952 <sup>b</sup>	1953 <sup>b</sup>	1954 <sup>c</sup>	1955 <sup>c</sup>	1956 <sup>c</sup>
I. National income (billion yen)	14.4	3,361.0	5,195.4	5,877.5	5,984.4	6,548.0	7,427.2
II. Gross national product (billion yen)	16.7	3,970.8	6,182.3	7,129.5	7,323.3	7,877.4	8,892.4
(a) Personal consumption expenditures	11.0	2,443.2	3,762.9	4,415.1	4,611.8	4,888.0	5,280.5
(b) Gross private domestic capital formation	2.6	798.6	1,187.0	1,336.5	1,243.8	1,252.5	1,932.3
(1) Private dwellings	0.2	50.1	75.9	102.6	132.5	138.8	165.2
(2) Producers' durable equipment	1.7	388.0	726.3	829.5	797.3	746.4	1,168.9
(3) Changes in business inventories	0.7	360.5	384.8	404.4	314.0	367.3	598.5
(c) Net foreign investment	0.0	104.8	79.5	-12.5	71.7	134.4	18.6
(d) Government purchases of goods and services	3.1	624.2	1,152.9	1,390.4	1,396.0	1,602.4	1,661.0
III. Real national income							
(a) Index on 1934-36 base	100.0	97.9	122.0	131.4	126.8	139.0	153.2
(b) Index on 1950 base	—	100.0	125.5	134.2	139.4	150.4	164.1
IV. Real income per capita							
(a) In yen <sup>a</sup>	210	169	206	218	208	225	245
(b) Index on 1934-36 base	100.0	80.5	98.1	103.8	98.9	107.0	116.8

<sup>a</sup> Yen at its 1934-36 average value. <sup>b</sup> Fiscal year. <sup>c</sup> Calendar year.

Source: *National Income and National Economic Accounts of Japan, 1930-56*, Economic Planning Agency, Research Division, National Income Section, Tokyo, November 1957.

This gives a rough annual average increase of 7.1 percent over the 60 years, although, of course, the rate varied considerably from decade to decade. In the United States and the United Kingdom, over roughly the same period, annual growth rates of 4.8 and 2.9 percent were attained.<sup>7</sup> Thus the Japanese 1955-56 rate of increase of 8.4 and 9.2 percent in real per capita national income is remarkable. Even the 1949-56 average rate of increase of 6 percent compares favorably with Japan's past.

By the end of 1956, real national income was 53 percent higher than the 1934-36 average and 64 percent higher than 1950. Yet it is clear that population increase absorbed much of these gains, for on a per capita basis real national income was only 17 percent above the 1934-36 level (see Table IV-1).<sup>8</sup> Despite the considerable economic growth shown in 1955 and 1956 there were indications that the rate was beginning to slow down. From the abnormally low level immediately after the war, real national income increased by 85 percent from 1946 through 1951, but only 45 percent from 1951 through 1956. On a per capita basis the increase was 67 percent for the first half of the decade, 36 percent for the second half.<sup>9</sup>

Industrial activity expanded rapidly during the first half of the fifties, as a result of the stimulus of the Korean War and subsequent

TABLE IV-2. INDEXES OF JAPANESE PRODUCTION, 1946, 1948, 1950-1956

(1934-36=100)

	1946	1948	1950	1951	1952	1953	1954	1955	1956
Industrial production	31	55	84	114	126	155	167	181	219
Mining	52	80	97	111	114	123	117	117	130
Durable mfrs.	36	75	110	164	172	210	213	223	303
Metals	16	40	97	144	154	184	192	219	266
Machinery	51	107	126	197	205	267	257	250	397
Non-durable mfrs.	22	35	67	89	104	132	150	168	191
Textiles	12	22	41	58	66	76	82	86	100
Chemicals	26	51	103	141	168	217	267	317	368
Food and tobacco	38	41	84	105	115	162	192	207	218
Utilities (electricity and gas)	109	138	168	185	201	221	237	255	295

Source: *Economic Statistics of Japan, 1956*, Bank of Japan, Tokyo, 1957, Table 106, pp. 203-204.

U.S. and U.N. procurement in Japan. In 1956 it was more than twice the prewar level and was 21 percent higher than 1955, as compared with an increase of 8.3 percent in 1955 over 1954 (see Table IV-2). The much higher level of population, however, reduced this large gain to a somewhat more modest figure. In Table IV-3 an index of population has been computed on a 1934-36 base and an index of real production, deflated for population, has been constructed. For 1956 this index stood at 167.9. Thus real per capita output in Japan may be said by the end of 1956 to have been some

TABLE IV-3. INDEX OF JAPANESE INDUSTRIAL PRODUCTION  
DEFLATED FOR POPULATION, 1934-1956

(1934-36=100)

Year	Index of Population	Index of Industrial Production	Index of Production De- flated for Population
1934	98.5	89.8	91.2
1935	100.0	99.0	99.0
1936	101.5	110.5	108.9
1937	102.9	129.7	126.0
1938	104.3	142.4	136.5
1939	105.3	147.8	140.4
1940	105.6	148.8	140.9
1941	107.0	149.6	139.8
1942	108.5	144.5	133.2
1943	110.4	160.1	145.0
1944	105.5	178.8	169.5
1945	104.0	60.2	57.9
1946	105.6	30.7	29.1
1947	112.8	37.4	33.2
1948	115.9	54.6	47.1
1949	118.1	71.0	60.1
1950	120.2	83.6	69.6
1951	122.2	114.4	93.6
1952	124.0	126.4	101.9
1953	125.7	155.1	123.4
1954	127.5	166.9	130.9
1955	128.9	180.7	140.2
1956	130.4	219.0	167.9

Sources: *Economic Statistics of Japan, 1956*, Bank of Japan, Tokyo; *Japanese Economic Statistics*, Economic Planning Agency, Tokyo, January 1957, Section I.

68 percent above the prewar level. The largest gains were achieved in durable goods manufacture, chemicals, and electric power, with textiles and mining lagging behind.<sup>10</sup>

Comparatively, there are two ways of viewing Japan's industrial recovery. Since both Japan and West Germany started from such a

TABLE IV-4. INDEXES OF MINING AND MANUFACTURING OUTPUT IN SELECTED COUNTRIES, 1948, 1950-1956

(1953 = 100)

	1948	1950	1951	1952	1953	1954	1955	1956	Percent Change 1948-1956
World <sup>a</sup>	73	84	91	93	100	100	110	115	+ 58
Japan	38	55	74	82	100	108	117	141	+271
Germany, West	39	72	86	91	100	111	129	139	+256
India	87	84	95	98	100	107	115	126	+ 45
United Kingdom	83	94	98	94	100	107	113	113	+ 39
United States	78	84	90	93	100	93	104	107	+ 37

<sup>a</sup> World excludes U.S.S.R., Bulgaria, Communist China, Czechoslovakia, Hungary, Poland, Rumania, and East Germany.

Source: *Monthly Bulletin of Statistics*, United Nations, April and May 1957.

TABLE IV-5. JAPANESE AND WORLD PRODUCTION OF CERTAIN BASIC COMMODITIES, 1937 AND 1956

	WORLD <sup>a</sup>		JAPAN <sup>b</sup>		JAPAN AS PER- CENT OF WORLD	
	1937	1956	1937	1956	1937	1956
Coal	1,235	1,439	45,274	46,560	3.7	3.2
Crude petroleum	251	757	352	314	0.140	0.041
Cement	76	201	6,120	13,020	8.1	6.4
Pig iron	89	159	2,400	6,264	2.7	3.2
Crude steel	118	228	5,796	11,100	4.9	4.8
Electricity	414	1,464	26,712	72,084	6.4	4.9
Aluminum	453	2,903	11	66	2.4	2.2

<sup>a</sup> In million metric tons, except electricity (billion kwh.) and aluminum (thousand metric tons). Excludes U.S.S.R. and Communist China.

<sup>b</sup> In thousand metric tons, except electricity (million kwh.).

Source: Computed from *Monthly Bulletin of Statistics*, United Nations, April and May 1957.

low point after the war, their rate of increase was, of course, rapid as compared with countries expanding from higher initial postwar levels. As Table IV-4 shows, for example, Japanese industrial output increased by 271 percent between 1948 and 1956, exceeding the 256 percent increase for West Germany. Japanese expansion was far greater than the increase in world production, which rose 58 percent between 1948 and 1956. On the other hand, if one compares the level of world output in 1956 with that prevailing in 1937 it appears that despite the very large gains of recent years the Japanese have lagged behind. World production increased by 105 percent between 1937 and 1956; Japanese output rose by 77 percent.<sup>11</sup> As may be seen in Table IV-5, Japan failed to keep pace with expanding world production in six of the seven basic categories of output listed.

Aware of this lag, the Japanese set out to do something about it. Aided by favorable world economic trends, they were able to undertake a remarkable increase in capital investment and equipment expansion from mid-1955 through mid-1957. The extent of the investment boom which developed may be seen from the following figures:

\* JAPAN: SELECTED INDICATORS OF EQUIPMENT INVESTMENT  
(million yen)

FISCAL YEAR	PRODUCERS' DURABLE EQUIPMENT		NEW INDUSTRIAL EQUIPMENT FUNDS		NEW ORDERS FOR MACHINERY	
	Total	Annual Change (%)	Total	Annual Change (%)	Total	Annual Change (%)
1952	7,263	+17.7	4,150	—	—	—
1953	8,272	+13.9	5,074	+22.3	1,624	—
1954	7,622	- 7.9	4,293	-15.4	1,178	- 27.5
1955	7,928	+ 4.0	4,818	+12.2	1,817	+ 54.3
1956	13,930	+75.7	8,775	+82.1	4,836	+166.1

Source: *Fuji Bank Bulletin*, September 1957, p. 16.

For the fiscal year ending March 31, 1957 investment in producers' durable equipment was up 76 percent over the previous year, the new supply of industrial equipment funds increased 82 percent, and new orders for machinery were 2.7 times those of the

previous fiscal year. The rate of gross private domestic capital formation in Japan rose from 15.9 percent in 1955 to 21.7 percent in 1956 (see Table IV-6). As a result of this increase in capital expansion, plant capacity in Japanese manufacturing rose 48 percent between March 1955 and March 1957. Production expanded to about the same extent, so that the operation rate in Japanese industry (roughly 80 percent—see Table IV-7) was the same in March 1957 as in March 1955 despite the expansion in capacity.<sup>12</sup>

TABLE IV-6. GROSS PRIVATE DOMESTIC CAPITAL FORMATION, JAPAN, 1950-1956

(billion yen)

Year	Gross National Product (A)	Gross Private Domestic Capital Formation (B)	B as % of A
1950	3,931.3	818.1	20.8
1951	5,085.6	1,264.6	24.9
1952	5,858.8	1,138.7	19.4
1953	6,816.6	1,338.9	19.6
1954	7,323.4	1,243.8	17.0
1955	7,877.3	1,252.5	15.9
1956	8,892.4	1,932.3	21.7

Source: *Statistics of National Income and Expenditure*, United Nations, Statistical Office, National Accounts Branch.

The Ministry of International Trade and Industry attributed this 1955-57 investment surge to six factors: (1) greater stability of corporate finances, due to the increase in corporate profits; (2) the encouraging business outlook, the continuance of world prosperity, and the expansion of international trade; (3) the decline in money rates in Japan in 1955 and the early part of 1956; (4) the fact that output in key industries such as iron and steel, machinery, chemicals, electric power, etc., was coming close to or had reached existing capacity; (5) the extensive growth of new industries such as petrochemicals, synthetic fibers, and plastics; and (6) the pressing need for rationalization and better equipment to improve the competitive power of Japanese heavy industries in overseas markets.<sup>13</sup>



TABLE IV-7. OPERATION RATES IN JAPANESE INDUSTRY,  
1950-1957

(percent of plant capacity)

	Mar. 1950	Mar. 1951	Mar. 1952	Mar. 1953	Mar. 1954	Mar. 1955	Sept. 1955	Mar. 1956	Sept. 1956	Mar. 1957
Textiles	66.2	94.7	84.7	88.2	94.1	93.1	93.0	87.7	96.2	85.3
Chemicals	48.7	60.0	53.5	61.2	64.9	66.7	65.1	66.4	70.2	56.1
Paper & pulp	59.5	86.0	88.1	90.3	78.1	80.1	80.9	86.0	76.2	80.4
Petroleum & coal products	40.3	53.1	70.5	79.6	82.6	68.3	66.0	70.7	61.4	72.5
Rubber goods	38.7	59.1	51.8	70.3	73.3	68.7	68.0	73.9	87.9	102.9
Ceramics	56.8	77.8	78.0	80.5	91.4	77.4	85.7	88.0	88.1	84.6
Iron & steel	38.3	48.8	47.6	50.4	53.9	60.1	57.2	58.6	62.5	69.2
Non-ferrous metals	54.2	69.5	72.5	62.9	88.3	89.9	92.0	90.2	88.3	81.0
Machinery	61.8	83.9	67.9	73.6	95.0	65.0	63.3	68.2	86.8	81.0
Composite	53.1	73.4	69.7	74.8	79.7	79.4	79.3	78.5	83.2	79.4

Source: Ministry of International Trade and Industry, Tokyo.

### The Economic Planning Agency observed:

Why, then, did such a sharp increase in investment occur? First, we must point to the extremely intense desire for modernization as the driving force of the investment boom. Second, increased profits and the ease with which investment funds were available under the easy money situation contributed materially to the investment boom. Third, as fund improvement became easy for medium and small enterprises, an unprecedented degree of equipment investment initiative developed in these quarters. Fourth, rush additional installations were carried out in the textile industry and department stores. Fifth, as it was advantageous, under the Capital Replenishment Law and the Special Taxation Measures Law, to carry out capital increases by January-February, 1957, all enterprises hastened to raise their capital diverting their proceeds to investment.<sup>14</sup>

Aware that with the pace of technological advance, the role of investment becomes the key factor in economic growth,<sup>15</sup> the Japanese have kept their rate of capital formation high. This may be seen from the following table:

CAPITAL ACCUMULATION RATES IN MAJOR COUNTRIES<sup>a</sup>

Year	Japan	U.S.	U.K.	West		
				Germany	France	Canada
1939	24	8	11	19	13	n.a.
1950	25	21	11	23	19	24
1951	32	19	16	23	20	26
1952	28	16	13	23	19	23
1953	28	17	15	21	17	25
1954	25	16	14	22	18	22
1955	25	19	17	25	18	24
1956	29	18	16	24	19	28

<sup>a</sup> Public and private gross capital formation.

Source: *Monthly Statistical Bulletin*, United Nations, December 1957, p. xvii.

The key roles in Japan's early postwar capital accumulation were played by the government and by the Bank of Japan. Government capital formation, which had averaged but 3.0 percent in 1934-36, rose to a peak of 11.2 percent in 1947 and then averaged 8.0 percent for the period 1948-56, more than double the prewar average.<sup>16</sup> When government lending was curtailed in 1949-50, bank lending expanded sharply to take its place, but by 1953 government capital formation was almost back to the 1948 level. This increased reliance on government capital was due to industry's greater dependence on external funds since the war, and to the banking system's financial difficulties in the early postwar years. Whereas before the war industry generated more than half its funds internally, from depreciation allowances and retained profits, in the postwar years it has raised 60 percent of its new capital externally. The vast postwar inflation not only rendered depreciation allowances minute and meaningless but also brought a necessary expansion in corporate financing through a vast increase in corporate debt.<sup>17</sup>

By the end of the postwar decade Japanese industry had imposed a substantial layer of new and efficient plant upon a large base of antiquated and obsolete equipment. The latter worried the Japanese. The Mitsubishi Economic Research Institute declared: "Although equipment capacity on the whole is excessive at present, it is rather short from a long range point of view. Quantitatively, most equipment is so superannuated that it must be modernized or rehabil-

itated. Consequently either enlargement investment or rationalization investment must constantly be made."<sup>18</sup>

The Economic Planning Agency declared:

It must be pointed out as one of the commonest weaknesses of Japanese enterprises that the rate of operation fluctuates sharply and is unstable in accordance with the changes of business conditions, and that it has remained at a very low level in normal times, even if it is true that once in many years it may be upped to a very high level and antiquated equipment may be employed as a result. A particularly important task of the enterprises will be to carry on investments for modernization of equipment, while at the same time maintaining a high level of capital efficiency. If Japanese enterprises continue to face the current boom while preserving obsolete equipment, Japan will remain a limited supplier of the world. It is essential that consideration should be given to the heightening of the rate of operation of highly efficient up-to-date equipment and to the modernization of equipment and elimination of obsolete and antiquated equipment.<sup>19</sup>

Aware of their backwardness in this respect, as one means of tackling the problem the Japanese have been inviting foreign, particularly United States, private assistance in technical instruction and patents on an investment basis. By March 31, 1957, 662 private technical assistance contracts had been signed, 448 of them, or 67 percent, with U. S. firms.<sup>20</sup> These agreements, which follow no one set pattern, provide for Japanese use of foreign patents, permit the sending of Japanese engineers and technicians to the foreign corporation's plants for training, bring United States and other foreign engineers and specialists to Japan to train the Japanese in new techniques and procedures, etc. For such benefits the Japanese agree to pay royalties to foreign firms on a basis which varies from one contract to another. The capitalized value of these contracts, at the end of 1955, was placed at \$353 million, and during fiscal 1956 the Japanese paid royalties on them amounting to \$28 million.

More than half of the contracts were in the machinery field, with the chemical industry also accounting for a large number. For example, the chemical division of B. F. Goodrich, through investment in the Japanese Geon Co., Ltd., was instrumental in establishing a new vinyl plastic plant in Japan to increase Japanese output of this product by 50 percent. B. F. Goodrich furnished the engineering design and manufacturing techniques. Radio Corporation of Amer-

ica has aided Tokyo Shibaura Denki in the latest techniques in the manufacture of cathode ray tubes and transistors. It has assisted more than two dozen Japanese companies to manufacture radio equipment and television sets. E. I. du Pont has entered into a number of contracts to enable Japanese companies to manufacture synthetic fibers. Armco Steel has helped both the Yawata and Fuji Steel companies to modernize their techniques.<sup>21</sup>

Every three months, for over seven years, the Japanese government has issued an announcement of fields in which foreign technological assistance is desired. Recent lists concentrate mainly on the heavy industries—electrical machinery, machine manufacturing, aircraft, chemicals, engineering, and metal manufacturing. The list changes from quarter to quarter as new fields are added and old ones, where needs have been met, are removed.<sup>22</sup>

These and other encouragements to industrial modernization and expansion are sorely needed if the ever-expanding Japanese labor force is to be absorbed in gainful employment. The gravity of the situation is highlighted by the fact that while manufacturing output increased by 196 percent between 1950 and June 1957, manufacturing employment rose only 35 percent. Conditions were even worse in mining. Over the same period, output rose 44 percent, but employment fell by 27 percent. The figures are as follows:

\* JAPAN: OUTPUT AND EMPLOYMENT  
(1951 = 100)

	MANUFACTURING		MINING	
	Output	Employment	Output	Employment
1950	92.6	94.1	99.7	104.7
June 1957	274.3	127.2	144.3	76.2
Percent change	+196	+35	+44	-27

*Source:* Ministry of Labor, Tokyo.

The contrast between the slow growth of employment and the rapid growth of output is attributed by Japanese economists to the fact that manufacturing industries as a whole had excess labor employed in 1949-50 and that much of the subsequent expansion took place simply by making fuller use of such labor. Between 1949 and 1956 employment rose by only 2 percent a year, in contrast with an annual average increase in manufacturing output of 18 percent over the same period.<sup>23</sup>

Japanese official estimates of unemployment are not very meaningful because only a small minority of those without work register with the labor offices as fully unemployed.<sup>24</sup> The majority either fall back on the family, the traditional unit of social security in Japan, or return to the ancestral farm during periods of urban unemployment, or find some minor service function to perform part time, which prevents them from being classified as "unemployed." For example, at a time when the official unemployment figure in Japan was said to be only 660,000, a responsible American observer declared: "However, as many persons are only partially employed it has been estimated that hidden unemployment and underemployment in Japan may total as high as 8,000,000 persons."<sup>25</sup>

Japanese sources tend to confirm this impression. One declares: "It is impossible for us to understand fully Japan's unemployment problem without full apprehension that this total statistical unemployment of 660,000 cited above, is not more than that part of an iceberg visible above the surface of the sea."<sup>26</sup> Another states:

A study of the agricultural and commercial population alone shows that there now exists a latent unemployment problem of several millions. According to past experiences, there is always a strong tendency for the unemployed population during periods of depression to infiltrate primarily into agriculture and petty trade. This fact can be viewed as characteristic of the labor structure of Japan. Of course, the existence of such a concealed unemployed population is not limited to agriculture and commerce alone. There is no doubt that this is true in the manufacturing, building, and other industries. As mentioned previously, the Labor Force Survey shows that the unemployed population is very small, giving the outward impression that the labor situation is very favorable. The facts show this is to be absolutely contrary to the real state of affairs. It must be admitted, therefore, that the labor situation in Japan is a serious problem.<sup>27</sup>

The *Oriental Economist* asserted:

Here in Japan, the level of employment is high in agriculture, forestry and fishing (primary industries) and low in manufacturing, mining and construction (secondary industries). There are other factors contributing to unstable employment, such as the comparatively large number of self-employed and family employees and the working hours lengthened or shortened to an extreme. For this reason the surplus labor force which should basically be put down as actually unemployed is recorded as actual workers. In other words, employment in Japan is shown in the

form of short working hours and low income rather than in the number of unemployed.

The number of persons "incompletely employed" in Japan today is, according to the Labor Ministry survey, at least 3,000,000. (This is a total of persons seeking to change their occupations, persons desiring to find further employment because their weekly working hours are less than 35, and persons desirous of jobs though they make no effort to find employment.) The statistics prepared by the Unemployment Countermeasures Council show that the number of persons whose income is less than standard pay reaches as many as 6,000,000, a figure which is nearly nine times as much as that which represents the completely unemployed. This clearly shows that the number of the completely unemployed is but a drop in the ocean.<sup>28</sup>

The Economic Planning Agency stated:

Completely unemployed persons totaled 600,000 in fiscal 1956. As the number of workers employed totaled 43,000,000, the ratio of completely unemployed persons to the number of workers employed was less than 2 percent. In advanced countries, unemployment ratio of less than 3 percent is considered to mean full employment. Is Japan's employment situation satisfactory then? It is by no means so. The reason is that in a country like Japan where agriculture and small business are preponderant, the real problem is the existence of underemployment with low productivity and low income. The employment situation cannot be gauged, as in more advanced countries, merely by the number of completely unemployed persons.<sup>29</sup>

Thus unemployment, underemployment, or "latent unemployment," as it is sometimes called, is a real problem in Japan, and the absorptive capacity of agriculture or of small-scale commerce and services such as street stalls, peddling, or other petty self-managed or family trading enterprises may be near the limit. As of the end of 1956 the labor force of 42.3 million consisted of 10.8 million self-employed, 13 million unpaid family workers, 560,000 "unemployed," and 17 million paid employees (see Table IV-8). In Japan paid employees constituted but 46 percent of the labor force,<sup>30</sup> compared with 91 percent in the United Kingdom and 82 percent in the United States. Most of the unpaid family workers and self-employed were either in agriculture or in small-scale trade or a variety of petty services. The labor force in agriculture is held to contain a surplus of three to five million: that is, there are an estimated three to five million underemployed in agriculture. In addition, Professor Oka-

TABLE IV-8. LABOR FORCE SURVEY, JAPAN, 1950-1956

(thousands of persons)	1950	1951	1952	1953	1954	1955	1956 <sup>a</sup>
Total population aged 14 & over	55,300	56,740	57,570	58,800	59,640	61,350	63,210
Labor force	35,010	36,360	39,380	39,110	39,230	41,410	42,330
Employed	34,670	35,940	38,900	38,800	38,640	40,840	41,770
Unemployed	340	420	470	310	600	570	560
Not in labor force	20,280	20,380	18,200	19,700	20,290	19,840	20,780
<i>Employed persons, by industry:</i>							
Agriculture & forestry	14,830	15,100	15,650	15,570	14,440	15,070	14,450
Non-agricultural:	19,840	20,840	23,260	23,220	24,190	25,770	27,330
Fishing	600	550	720	560	590	550	640
Mining	520	580	590	570	710	520	630
Construction	1,350	1,440	1,670	1,900	1,610	2,070	1,980
Manufacturing	6,250	6,460	7,180	7,090	7,180	7,890	7,820
Trade, finance, etc.	4,960	5,400	6,010	6,050	6,960	6,870	7,540
Public utilities	1,800	1,920	1,960	1,890	1,830	2,070	2,200
Services	3,210	3,390	3,980	4,000	4,060	4,730	5,230
Government	1,130	1,090	1,110	1,180	1,230	1,030	1,240
Unclassifiable	10	0	0	0	20	30	60

<sup>a</sup> December 1956.

Source: *Economic Statistics of Japan, 1956*, Bank of Japan, Tokyo, Table 151, pp. 305-306.

saki estimates that there are 1.3 million surplus workers in trade and commerce. They are employed in petty enterprises as family workers; they may earn some income but it is insignificant, and they are dissatisfied with their work. Thus for practical purposes they can be regarded as unemployed or underemployed. Recent estimates of "latent unemployment" range from Tsuru's 2.6 million to the 6.8 million given by the Government Council on Employment Policy.

But even if one disregards this category and reasons that everyone can stay where he is now without any further depressing effect on the Japanese economy, what of the 800,000 to 900,000 new entrants to the labor force each year? It can hardly be argued that they too can be absorbed into the primary or tertiary sectors. Over a decade their number will amount to seven or eight million. To find employment in the industrial (secondary) sector for these new workers—that is, to add about eight million employees to the present 13.2 million<sup>31</sup>—will require a vast expansion in manufacturing output.

Japanese economists speak of the "dual structure" of their economy. They point out that Japan's employment structure is polarized, with large-scale modern enterprises on the one hand and small enterprises based on pre-modern labor-capital relationships, ultra-small enterprises operated by family management, and agriculture on the other.<sup>32</sup> The proportion of medium-sized enterprises is very small. This may be seen from the following:

JAPANESE MANUFACTURING INDUSTRY BY SCALE  
(percent of total)

Scale	No. of Enterprises	No. of Employees	Value of Product	Value Added by Manuf.
Petty (less than 4 employees)	56.8	10.0	3.1	—
Small (4-29 employees)	36.9	31.5	19.2	19.0
Medium (30-299 employees)	5.9	31.6	33.9	32.8
Large (300-999 employees)	0.3	12.3	20.3	20.9
Giant (1,000 employees and over)	0.1	14.6	23.5	27.3
	100.0	100.0	100.0	100.0
Small and medium (less than 300 employees)	99.6	73.1	56.2	51.8
Large (more than 299 employees)	0.4	26.9	43.8	48.2

Source: "Problems of Small and Medium Enterprise," *Fuji Bank Bulletin*, Tokyo, Vol. VIII, No. 2, June 1957, p. 8.



Whether the capital-short agriculture and small enterprise sector can continue to absorb the bulk of the increase in the labor force, as it has over the past decade, is open to doubt. Less effective demand per worker is generated in this sector than in the modern sector. Low productivity results in low wages in the pre-modern sector. Thus for future absorption of additions to the labor force with rising standards of living, the Japanese must look to modernization of the backward sector and further growth of the modern sector. "It has become clear that full employment—the ultimate objective of the Japanese economy—should be achieved, not merely by reducing the number of completely unemployed persons but by eliminating the dual structure through economic modernization and growth."<sup>33</sup>

#### CONCLUSION

The level of employment depends on gross national product. Expanded output requires (a) additional capital investment, and (b) increased imports of raw materials. The additional capital investment requires increased personal and business savings. The increased volume of imports necessitates a significant expansion of exports. Thus the two major factors that will determine Japan's ability to achieve full employment are (a) savings and investment, and (b) exports.

How much of an increase in each of these factors would be needed by, say, 1965 to employ the prospective increase in Japan's labor force? Although there have been various estimates by different experts there seems to be some agreement that capital requirements per new employee in manufacturing industry may be placed at about 1.5 million yen per man. The investment funds needed for the absorption of 900,000 new entrants to the labor force each year will thus amount to 1,350 billion yen per annum. Since in 1956 gross *private* domestic capital formation in Japan for productive equipment amounted to 1,393 billion yen and total government capital formation (only part of which represented productive equipment) was 728 billion yen, the Japanese economy appears capable of meeting the first requirement for full employment, namely, capital investment.

What of the second factor, exports? This calculation is a bit more involved. Professor Tsuru has estimated that if the Japanese labor force rises to 50 million by 1965 (it was 43 million in 1956) and overall productivity improves by 35 percent by that year, the gross

national product will rise to 13,500 billion yen (it was 8,892 billion yen in 1956).<sup>34</sup> In recent years overall dependence on imports has fluctuated between 12 and 14 percent—that is, total imports have been about one-eighth of the gross national product. Since this reliance on foreign supplies seems to be increasing,<sup>35</sup> the Economic Planning Agency estimates that dependence on imports in 1965 is likely to be around 13.5 to 15.0 percent. Applying the lower figure to the estimated gross national product (\$37.5 billion) in 1965, the volume of imports needed is about \$5 billion. Can Japan generate a volume of exports sufficient to pay for \$5 billion of imports? Upon the answer to this question depends Japan's ability to handle its employment problem, and in turn possibly its political stability.\*

\* This question will be examined in detail in Chapter VII and an answer suggested. See pp. 134-35.

## V

# The Changing Industrial Structure

NITO O OU MONO WA ITTO O EZU

He who chases two hares catches neither

IN RESPONSE both to changing export demands and to the requirements of the home market, Japanese industry has, in the postwar decade, witnessed a much greater expansion in the heavy and chemical industries than in the textile and other light industries.

In 1930, for example, the heavy and chemical industries employed 23.6 percent of the labor force, textiles 51.1 percent. By 1956 employment in the textile industry was down to 23.5 percent of the labor force, while heavy and chemical industries accounted for 43.0 percent.<sup>1</sup> In value of output, heavy industries and textiles were about equal to 1930; metals, machinery, and chemicals accounted for 35.3 percent of the total, spinning and weaving for 36.5 percent. In 1956 the heavy industries' share of total output was 51.2 percent, that of textiles only 18.1 percent.<sup>2</sup>

In exports the trend is even more pronounced. From 69 percent in 1929, the share of all textiles in Japanese exports (by value) declined to 53 percent in 1936 and to 34 percent in 1956. In contrast, metals, metal products, and machinery rose from 4 percent of total export value in 1929 to 14 percent in 1936, and by 1956 their share reached 37 percent.

As Professor G. C. Allen has said: "The textile trades now employ fewer workers than they did twenty-five years ago, although factory employment as a whole has more than doubled."<sup>3</sup> Yet generalization with respect to the profound structural changes which have occurred in Japanese industry may conceal as well as reveal, and thus be misleading. The production index (1934-1936 = 100)

for July 1957 was 260, but the textile component was only 112, while the chemical series registered 469 and the machinery index 479.<sup>4</sup> Within the overall textile category, although cotton and silk output have lagged markedly, synthetic fibers have had a most pronounced growth.<sup>5</sup> And, within the heavy industries, while metals, machinery, and chemicals have expanded spectacularly, coal mining has barely regained prewar levels. In fact productivity, as measured by output per month per wage earner, is significantly below prewar levels. In 1934-36, Japanese coal miners averaged 17.8 metric tons per month per worker. For the three years 1954-56 the comparable figure was 12.9 metric tons.<sup>6</sup> It would be well therefore to consider each of the major industries separately though briefly.

#### TEXTILES

The textile industry, Japan's largest before the war, was dealt a crushing blow in World War II, from which it has not yet fully recovered, in contrast with most other sectors of Japan's economy. The number of cotton spindles was reduced from 11.5 million in 1939 to a low of 2.0 million in 1945. By 1950 spinning capacity was built back to 4.3 million and in 1956 it reached 9.0 million, or approximately three-fourths of the prewar peak. In contrast, the United States had 23 million spindles in 1956.<sup>7</sup>

The status of the four major sectors of the textile industry, as compared with prewar peaks, may be seen in Table V-1. Only in the case of rayon staple, spun rayon yarn, and wool yarn was output in 1956 higher than the prewar level.<sup>8</sup> Cotton yarn and fabric output was only 70 percent of the prewar peak. Japan's 3.5 billion square yards of cotton fabric production was approximately one-third that of the United States and about three-fifths that of India.<sup>9</sup>

Silk is the most retarded of Japan's textile industries. Both raw silk output and silk fabric production are less than half of prewar peak levels. Mulberry field acreage is but 21 percent of prewar. Chiefly responsible for this decline in the one sector of the Japanese textile industry which requires no imported materials is the reduction in raw silk consumption in the United States (see Table V-2). Before the war the United States took over 90 percent of Japan's raw silk exports, largely for women's stockings. Since 96 percent of women's stockings are now made of nylon and but 0.2 percent of silk, U.S. raw silk consumption is only about a tenth of prewar. In

TABLE V-1. JAPANESE TEXTILE PRODUCTION, PREWAR PEAK, 1948, 1950, 1954-1956

	UNIT (millions)	PREWAR PEAK		1948	1950	1954	1955	1956	AS % OF PREWAR PEAK	
		Year	Production						1955	1956
Cotton yarn	lbs.	1937	1,586	275	525	1,024	923	1,087	58	68
Cotton fabrics	sq. yds.	1937	4,826	924	1,542	3,184	3,018	3,479	63	72
Rayon staple	lbs.	1938	327	35	150	448	537	690	164	211
Filament rayon yarn	lbs.	1937	336	36	103	185	195	227	59	67
Spun rayon yarn	lbs.	1938	274	25	89	323	411	514	150	187
Filament rayon fabrics	sq. yds.	1937	1,034	40	397	660	774	920	75	88
Spun rayon fabrics	sq. yds.	1938	958	49	210	651	896	1,112	94	116
Wool yarn	lbs.	1936	155	24	72	169	185	232	119	149
Wool fabrics	sq. yds.	1935	323	25	79	154	186	220	58	68
Raw silk	bales	1934	754	144	176	258	289	313	38	41
Silk fabrics	sq. yds.	1940	621	120	132	183	208	213	33	34

Sources: Figures for 1948-55 from *Textile Statistics Annual*, Ministry of International Trade and Industry, Tokyo; raw silk figures from Ministry of Agriculture and Forestry, Raw Silk Bureau, Tokyo; 1956 figures from *Economic Statistics Monthly*, Bank of Japan, Statistical Department, Tokyo, August 1957, pp. 105-106.

TABLE V-2. RAW SILK SUPPLY AND DEMAND, JAPAN, 1934-36, 1947-1956

(132-pound bales)

Year	Production	Exports	Sales in Domestic Market	Net Domestic Consumption <sup>a</sup>	U.S. Raw Silk Consumption
1934-36 av.	723,000	523,481	n.a.	159,803	471,163
1947	119,773	17,273	n.a.	n.a.	20,813
1948	144,315	80,032	141,183	90,864	89,397
1949	175,375	48,663	138,664	113,083	36,551
1950	176,998	95,994	132,792	92,457	67,214
1951	215,268	71,270	144,833	125,813	44,030
1952	256,687	72,355	191,976	163,488	52,553
1953	250,721	63,859	187,987	147,674	41,171
1954	257,915	76,229	179,790	153,172	48,546
1955	289,476	86,712	199,017	n.a.	54,893
1956	312,787	74,998	232,404	n.a.	55,068

n.a. = not available.

<sup>a</sup> Prewar figures are from the Japan Textile Association, while postwar figures are computed from total deliveries and exports.

Source: Ministry of Agriculture and Forestry, Raw Silk Bureau, Tokyo.

Japan, too, per capita consumption of silk is now lower than before the war. In contrast, per capita consumption of chemical textiles is almost four times prewar levels. Silk exports are less than a fifth of prewar volume, and the ratio of exports to production now stands at 24 percent, against 71 percent before the war. Not only has Japan largely lost an important source of foreign earnings, but many Japanese farmers have suffered a decline in a major income supplement, for cocoons are raised in the rural districts. Moreover, whereas the extraction of raw silk from cocoons was formerly done by hand reeling as a remunerative sideline of farmers, today the much smaller volume of reeling is largely done by automatic reeling machines.

In contrast with the lethargy of the natural fibers, synthetic textiles have been making remarkable headway.<sup>10</sup> Rayon staple production in 1956 rose to 690 million pounds, up 360 percent from 1950. This figure far surpassed the totals for the United States and West Germany, thus making Japan the world's largest producer.

Operable equipment has been expanding steadily, so much so that in 1956 the Ministry of International Trade and Industry advised rayon producers to curtail reckless expansion plans.<sup>11</sup> On the other hand there is evidence from many sources that there is a steady trend, which amounts to a policy, to build up the position of synthetics at the expense of, and in replacement for, cotton and wool. The purpose is to reduce dependence on imported materials and the expenditure of foreign exchange which they require. Ways in which synthetics are being encouraged at the expense of cotton and wool include limitation of cotton textile production and of wool imports, government loans at favorable rates, special tax encouragements for expansion of synthetic capacity, and approval of many foreign technical assistance contracts in this field.<sup>12</sup>

In the five-year plan for economic development which the Japanese government announced at the end of 1955, the textile projections confirm the trend to synthetics. By 1960 it is obviously intended to reduce consumption of cotton both absolutely, and even more per capita. There is to be a small increase in wool and in silk but a major increase in synthetics. Cotton output is expected to decline from 50 to 39 percent of total textile output, while synthetics are expected to increase from 30 to 45 percent of the total. In textile exports a drop from 55 to 41 percent of the total is projected for cotton, while synthetic fibers are to rise from 35 to 50 percent.<sup>13</sup>

This program is an attempt by the Japanese to face the realities of the world situation and to conserve foreign exchange by holding down the importation of raw cotton. Yet restrictions on cotton textiles will further weaken one of Japan's great industries, already hard hit by the loss of a good part of the world silk market. The total volume of textile production in Japan is now exceeded only by that of the United States. Japan is well ahead of Great Britain and India, the next two important countries, in total textile output. This position has been attained by a tremendous restoration of capacity in the decade since 1945. The present textile industry in Japan is substantially a new industry, largely rebuilt since World War II. For example, 75 percent of Japan's cotton spindles are new (postwar); 91 percent of the spun rayon spindles and 78 percent of the worsted spindles are new, as is 81 percent of the rayon capacity.<sup>14</sup>

In order to check overproduction and bring about stability in the

cotton spinning industry, the Law For Temporary Disposal of Textile Industry Equipment was promulgated in June 1956 and put in force on October 1, 1956. In anticipation of the effective date, desperate attempts had been made to install new spindles so that as many spindles as possible might be registered under this law, for unregistered equipment would not be allowed to operate. By October 1956, 9,020,000 spindles were registered, showing an increase of 850,000 over the previous year.<sup>15</sup>

In attempting to curtail cotton textiles and expand synthetics the Japanese are sacrificing a certain competitive advantage for an uncertain one. Despite the paucity of good studies and the plethora of claims and counterclaims, it seems reasonably clear that in cotton textiles the Japanese can undersell every other country. For example, a Canadian study of the Japanese textile industry makes the following comparisons with respect to 20s cotton yarn:<sup>16</sup>

	Production per Man-hour	Wage per Hour	Wage per Pound
Japan	7.2 lbs.	13 cents	1.8 cents
United Kingdom	5.2 lbs.	39 cents	7.5 cents
United States	15.2 lbs.	132 cents	8.6 cents

In attempting to prove that the Japanese cotton textile producers' costs are substantially above those of U.S. mills, the Japanese Ministry of Labor published the following table:<sup>17</sup>

COMPARATIVE LABOR PRODUCTIVITY IN COTTON SPINNING  
(international comparison of working hours per 100 lbs. of product)

COUNT	FORE SPINNING			SPINNING			TOTAL		
	Japan	U.K.	U.S.	Japan	U.K.	U.S.	Japan	U.K.	U.S.
21s	6.48	6.97	2.33	7.22	9.02	4.26	13.70	15.99	6.59
31s	8.21	11.24	5.26	13.29	11.44	5.19	21.50	22.68	10.45
38s	11.42	13.03	5.80	11.87	14.52	4.25	23.29	27.55	10.05
45s	9.96	14.42	5.96	14.94	17.60	6.06	24.90	32.02	12.02

For 21s yarn Japan uses 13.7 working hours to produce 100 pounds while the United States produces the same amount with 6.59 working hours of labor. Now if one extends this demonstration a step further and multiplies the 13.7 working hours by 17 cents, the present average wage per hour in the Japanese cotton spinning industry,



the cost in Japan of producing 100 pounds of 21s yarn comes to \$2.32. If the 6.59 hours is multiplied by \$1.00, the minimum hourly wage in the United States, the cost of producing 100 pounds of 21s cotton yarn comes to \$6.59, almost three times the Japanese cost.

The London *Economist* noted a considerable differential between Japanese and British costs in cotton textile production. It declared:

There is an even greater difference between Japanese and British production costs today than there was before the war; the difference is probably over three times as great, and British costs are much more rigid than Japanese. *Weekly* average wages paid to United Kingdom cotton textile operatives are about 176 shillings (8,800 yen) for men and 107 shillings for women (5,650 yen). In Japan average *monthly* wages in textiles are 9,253 yen for men and 6,890 for women.<sup>18</sup>

Can such a comparative advantage be carried over to synthetic textiles, where labor costs are a smaller factor than in cotton and where Japanese knowhow is only recently acquired? This is a gamble which the Japanese are apparently prepared to take, for they realize that world markets for cotton textiles are diminishing.<sup>19</sup> Over the last half century, the output of cotton goods, which in 1950 accounted for 74 percent of world textile consumption (as against 80 percent in 1900), has continued to increase; but the volume of goods entering into international trade has declined, as the following figures indicate:

WORLD COTTON TEXTILE PRODUCTION AND TRADE  
(million square yards)

	Average 1910-13	Average 1936-38	1950	1955
World production	27,000	35,500	37,200	45,400
International trade	9,500	6,500	5,700	5,100

*Source:* The Cotton Board, Royal Exchange, Manchester.

The usual first step in the industrialization of any underdeveloped country is the establishment of a cotton textile industry and the imposition of protective tariffs to swaddle the infant industry. As they develop, countries tend to become quickly self-sufficient in cotton textiles.<sup>20</sup> Japan has now regained the number one status in the world cotton textile market; but world trade in cotton textiles was

10 percent less in 1955 than in 1950, although world production was substantially higher. Cotton textiles were one of the few major Japanese export commodities which failed to expand in volume between 1954 and 1956.<sup>21</sup> As more and more nations become self-sufficient, the major producers—Japan, India, Great Britain, and the United States—compete for a declining total volume of textile trade.

#### THE HEAVY INDUSTRIES

In contrast with its overall advantageous cost position in textiles and other light goods, Japan is a high-cost producer of iron and steel, metal products, and machinery. The report on comparative international prices of export commodities published monthly by the Bank of Japan makes it possible to rank Japan's leading industries according to their competitive price status. As Table V-3 shows, Japanese heavy industries appear to be higher-cost producers than their international competitors. For example, in June 1956 rolled steel bars were quoted at \$124.20 per ton in Japan, \$102.50 in the United States, \$96 in the United Kingdom, \$105 in Belgium, and \$89.70 in West Germany. Thin steel plate was \$140.80 per ton in Japan, \$99.60 in the United States, \$93.80 in the United Kingdom, and \$109.50 in West Germany.<sup>22</sup>

Of the total value of Japanese metal output in the postwar period, pig iron, steel ingot, and rolled steel formed nearly 50 percent, while non-ferrous metal ingot accounted for 8 percent and rolled copper for 12 percent. In 1956 Japan's steel industry produced 5.7 million tons of pig iron, 11.1 million tons of steel ingot, and 7.8 million tons of ordinary rolled steel.<sup>23</sup> Japan's output of crude steel at 11.1 million tons compared with U.S. production of 105 million tons, India's output of 1.7 million, U.S.S.R. 48 million, United Kingdom 21 million, and West Germany 23 million tons in 1956.<sup>24</sup>

Why are the Japanese higher-cost steel producers than other major nations? It is not due to the structure of the industry, for steel is one of the large-scale industries of Japan, with 77 percent of output concentrated in ten firms. Large-scale establishments (for all Japanese industry) employing more than 300 persons constituted only 0.4 percent of all Japanese firms, according to the latest Census of Manufactures, but the number of employees and the value of

TABLE V-3. JAPAN'S MAJOR EXPORT COMMODITIES LISTED IN ORDER OF THEIR PRICE ADVANTAGE ON THE WORLD MARKET

	Net Foreign Exchange Earning Ratio <sup>a</sup> (percent)
I. Those for which Japan's prices are lower than world prices	
Cotton fabrics	49.0
Spun rayon fabrics	96.3
Rayon fabrics	93.7
Raw silk	100.0
Cameras	99.1
Frozen tuna fish	97.7
China ware	96.4
Tea	100.0
II. Those for which Japan's prices are about the same as world prices	
Ammonium sulphate	100.0
Cement	99.9
Sewing machines	95.0
Steel ships	90.9
III. Those for which Japan's prices are higher than world prices	
Steel bars	77.0
Galvanized iron sheets	86.8
Steam locomotives	88.1
Railway coaches	80.4
Machine tools	83.0

<sup>a</sup> The net foreign exchange earning ratio is computed by the Japanese Economic Planning Agency by taking the difference between the FOB export price and the value of the imported content in a unit of product, and dividing by the FOB export price.

Source: *Economic Survey of Asia and the Far East, 1955*, U.N. Economic Commission for Asia and the Far East, p. 131.

deliveries represented 26.9 percent and 43.8 percent, respectively, of the totals. Most steel firms would fall in this category. In contrast, establishments employing less than 300 persons, which constituted 99.6 percent of the total number of establishments, accounted for 56.2 percent of output. Small establishments employing less than four persons accounted for 56.8 percent of the total number of

manufacturing establishments but for only 10.0 percent of the total labor force in manufacturing and 3.1 percent of the value of output.<sup>25</sup> In steel, on the other hand, the six biggest firms, Yawata, Fuji, Nippon Steel, Kawasaki, Sumitomo, and Kobe Steel, accounted for 75 percent of total steel ingot output.<sup>26</sup>

Prior to the outbreak of the Korean War, Japanese steel products had been competitive with those of other nations because of subsidies granted by the government. The subsidies were removed completely just before the war broke out, and this factor, combined with the heavy demand caused by the war and the rise in the costs of imported raw materials as well as in shipping rates, caused prices of Japanese steel products to climb to levels 50 and 60 percent above those of other nations. Speculative activities on the part of dealers contributed to the price boom. The extent of the rise in Japanese prices may be seen in Table V-4-A. But, for a time, the Japanese

TABLE V-4-A. COMPARISON OF DOMESTIC STEEL PRICES, JAPAN, BELGIUM, AND U.S., 1951

(dollars per ton)

Product	Country	January	April	July	November
Bar steel	Japan	81	119	136	136
	Belgium	75	75	84	84
	U.S.	82	82	82	82
Thick plate steel	Japan	85	128	143	143
	Belgium	84	84	95	95
	U.S.	81.5	81.5	81.5	81.5
Thin plate steel	Japan	158	247	264	230
	Belgium	160	160	186	186
	U.S.	79.3	79.3	79.3	79.3

Source: Bank of Japan, Tokyo.

were able to sell their steel and machinery despite its dearth, for such items were hard to obtain in the United States and western Europe. While Japanese steel prices have from time to time receded from the speculative levels of mid-1951, they have never regained their pre-Korean position (see Table V-4-B), and they remain somewhat higher than those of competitor countries.

Three basic reasons suggest themselves to explain this situation, though doubtless there are others. First, at no time from 1946 to

TABLE V-4-B. COMPARISON OF DOMESTIC STEEL PRICES, JAPAN, BELGIUM, AND U.S., 1955-1957

		1955			1956			1957		
		Jan.	Apr.	Nov.	Jan.	Apr.	Nov.	Feb.	Apr.	Aug.
Bar steel	Japan <sup>a</sup>	97.2	105.5	111.1	115.8	115.8	132.5	132.5	131.9	137.5
	Belgium	87.7	102.7	94.7	105.0	105.0	103.0	110.0	110.0	110.0
	U.S. <sup>b</sup>	94.8	94.8	102.5	102.5	102.5	111.9	111.9	111.9	119.6
Thick plate steel	Japan <sup>a</sup>	111.0	113.9	122.2	129.7	129.7	151.9	151.9	151.4	156.9
	Belgium	99.7	99.7	105.7	115.0	115.0	120.0	135.0	117.0 <sup>d</sup>	117.0 <sup>d</sup>
	U.S. <sup>b</sup>	93.1	93.1	99.6	99.6	99.6	107.3	107.3	107.3	112.4
Thin plate steel	Japan <sup>a</sup>	138.9	144.4	147.2	151.9	151.9	174.2	174.2	173.6	176.4
	Belgium <sup>c</sup>	128.0	128.0	128.0	139.3 <sup>d</sup>	139.5 <sup>d</sup>	147.5 <sup>d</sup>	147.5 <sup>d</sup>	147.5 <sup>d</sup>	147.5 <sup>d</sup>
	U.S. <sup>b</sup>	89.3	89.3	95.3	95.3	95.3	103.0	103.0	103.0	108.5

<sup>a</sup> Quotations by Yawata Iron and Steel Co., Ltd.

<sup>b</sup> Prices published by U.S. Steel Corporation.

<sup>c</sup> Price of Thomas steel.

<sup>d</sup> West Germany.

Source: Bank of Japan, Tokyo.

mid-1956 have operations in the iron and steel industry been at more than two-thirds of capacity. Only during the latter part of 1956 did operations begin to approach capacity. Thus the economies of large-scale operation could not be fully achieved (see Table IV-7). During 1955, when pig iron output was 5.2 million tons, capacity was 7.7 million. Ingot capacity was 11.5 million tons, output only 9.4 million.

Secondly, a substantial part of the iron ore, coking coal, and scrap iron used in the Japanese steel industry must be imported. This means higher raw material and freight costs than those of competitor nations. As may be seen in the following table, Japanese pig iron producers paid more for coke than any of their major competitors and ranked second in the cost of iron ore and scrap.

PIG IRON PRODUCTION: COSTS OF MAJOR MATERIALS USED, 1954

	Japan	United States	United Kingdom	West Germany
<i>Coke</i>				
Standard requirement per ton of pig iron (kg.)	699	873	1,000	951
Cost per metric ton	\$27.00	\$14.37	\$17.08	\$15.47
Cost per ton of pig iron	\$18.87	\$12.55	\$17.08	\$14.71
<i>Iron ore</i>				
Standard requirement per ton of pig iron (kg.)	1,476	1,656	2,201	1,791
Cost per metric ton	\$11.57	\$12.92	\$ 7.09	\$10.06
Cost per ton of pig iron	\$17.08	\$21.40	\$15.61	\$18.02
<i>Scrap iron</i>				
Standard requirement per ton of pig iron (kg.)	63	50	73	93
Cost per metric ton	\$31.50	\$27.32	\$17.50	\$32.96
Cost per ton of pig iron	\$ 1.98	\$ 1.37	\$ 1.08	\$ 3.06
Total cost of above materials	\$37.93	\$35.32	\$33.97	\$35.79

Source: *Iron and Steel World*, Tekkokai, Tokyo, October 1955, p. 58.

By the end of 1955 the raw material cost per ton for Japanese pig iron had risen from \$37.93 to \$43.05.<sup>27</sup>

Japan obtains 90 percent of its coking coal from the United States. As Table V-5 indicates, the freight cost exceeds the cost of the

coal. Other sources, though cheaper, are limited. In the case of iron ore, 60 percent of Japan's imports in 1955 came from lower-cost sources such as Malaya and the Philippines and 37 percent from India, Goa, the United States, and Canada, combined. Scrap has now become the most costly of all steel raw materials for Japan. The domestic price of special grade one scrap in Japan in 1957 was 18,500 yen per ton; in West Germany, 12,960 yen; in the United Kingdom, 7,920 yen; in the United States, 14,000 yen.<sup>28</sup> U. S. exports of iron and steel scrap to Japan rose from \$8,000 in 1952 to \$106 million in 1956.

The third factor, and perhaps the most important, in the Japanese cost situation was the lag in production techniques and the continued use of outmoded and obsolete machinery. Until 1950 the Japanese were far behind the advanced nations of Europe and America in steel-making techniques and equipment. Recognizing this, Japanese steel producers launched their first rehabilitation and rationalization program in 1951. It involved an expenditure of \$345 million over four years, and by 1956 much had been achieved in the introduction of modern equipment and efficient techniques. According to the Tekko Renmei (Japan Iron and Steel Federation), labor productivity in the Japanese iron and steel industry rose from an index base of 100 in fiscal 1951 (April 1951 to March 1952) to 175 in October 1956. The average time required for manufacturing one ton of pig iron by blast furnace was reduced from 10.34 hours in 1951 to 7.74 hours in 1956.<sup>29</sup> In addition, a number of technical assistance contracts with foreign firms were signed, giving the leading Japanese companies the advantage of superior and newer overseas steel-making developments.<sup>30</sup>

Yet despite these improvements in raw material treatment and use, installation of blooming mills, continuous hot and cold strip mills, adoption of the oxygen process for open hearths, converters, and electric furnaces, enlargement of blast furnace capacity, etc., all of which raised steel production per man-hour to higher than prewar levels, the Economic Planning Agency estimates that Japan still needs twice as many man-hours to turn out a ton of pig iron, or a ton of steel, as Britain. Thus, in spite of the relatively low wages of the Japanese, the labor cost per ton is substantially greater, both for pig iron and for steel, than it is in Britain. Aware of this, the leading steel companies, under the second rationalization

TABLE V-5. PRICES OF IRON AND STEEL RAW MATERIALS IMPORTED BY JAPAN, 1950-1956

1. COKING COAL IMPORT PRICES <sup>a</sup>							
(dollars per metric ton)							
	Fiscal 1950	Fiscal 1951	Fiscal 1952	Fiscal 1953	Fiscal 1954	Fiscal 1955	Fiscal 1956
Doi (Sakhalin, U.S.S.R.)							
FOB	10.00	°	°	10.50	10.00	10.00	10.25
Freight	2.85	°	°	4.15	3.95	4.75	5.50
CIF	12.90	°	°	14.70	14.00	14.80	15.75
Tekido (Manchuria, Communist China)							
FOB	9.19	°	8.00	°	°	°	°
Freight	2.03	°	11.65	°	°	°	°
CIF	11.27	°	19.70	°	°	°	°
Kailan (Communist China)							
FOB	8.40	°	°	8.40	8.47	°	8.08
Freight	2.63	°	°	3.00	2.80	°	3.73
CIF	11.06	°	°	11.50	11.37	11.14	11.88
India							
FOB	6.38	6.90	7.57	6.60	6.45	°	°
Freight	10.99	14.09	11.87	7.87	7.79	°	°
CIF	17.44	21.04	19.57	14.54	14.31	°	°
America <sup>b</sup>							
FOB	10.25	10.25	10.63	d	d	°	11.50
Freight	14.34	17.91	17.10	d	d	°	16.79
CIF	24.65	28.56	27.79	17.27	17.23	21.68	28.35
Formosa							
FOB	°	°	°	°	13.00	13.65	15.87
Freight	°	°	°	°	3.50	4.23	4.75
CIF	°	°	°	°	16.57	17.93	20.67

<sup>a</sup> Prices, except American, are from the Yawata Iron and Steel Company's purchase contracts, which are based on cost and freight; insurance has been estimated to give a CIF figure.

<sup>b</sup> FOB prices based on average for all imports from United States into Japan; freight and insurance estimated.

<sup>c</sup> No shipments received.

<sup>d</sup> Shipments received but prices not available.

Source: Research Section of the Yawata Iron and Steel Company.



TABLE V-5 *continued*2. IRON ORE IMPORT PRICES<sup>a</sup>  
(dollars per metric ton)

	Fiscal 1950	Fiscal 1951	Fiscal 1952	Fiscal 1953	Fiscal 1954	Fiscal 1955	Fiscal 1956
Dungan (Malaya)							
FOB	5.79	8.87	11.32	8.58	8.34	7.91	8.43
Freight	4.46	12.22	8.52	5.22	5.11	7.62	8.56
CIF	10.33	21.14	19.89	13.85	13.50	15.57	17.03
Larap (Philippines)							
FOB	6.27	8.77	9.58	9.66	8.89	8.63	9.21
Freight	4.05	8.30	6.12	3.85	3.31	5.06	5.81
CIF	10.40	17.15	15.76	13.55	12.22	13.92	15.05
Goa (Portuguese India)							
FOB	5.15	6.75	7.83	6.24	5.92	5.97	6.40
Freight	8.55	15.43	13.45	7.98	8.11	13.45	17.13
CIF	13.75	22.23	21.34	14.28	14.04	19.46	23.58
Hongkong							
FOB	7.39	6.97	7.00	b	7.19	6.85	8.57
Freight	4.36	7.03	6.77	b	3.31	5.16	5.87
CIF	11.80	14.05	13.82	11.85	10.62	12.06	14.47
Utah (U.S.A.)							
FOB	9.00	10.40	9.85	8.96	8.72	b	b
Freight	15.15	15.04	14.19	6.32	6.44	b	b
CIF	24.20	25.50	24.09	15.35	15.22	20.00	23.38
India							
FOB	5.84	8.41	9.20	b	b	9.36	10.48
Freight	4.93	14.95	12.67	b	b	11.86	16.32
CIF	10.81	23.72	21.92	18.59	17.18	21.25	26.85

<sup>a</sup> Prices are for iron ore actually imported by the Yawata Iron and Steel Company.

<sup>b</sup> Unavailable.

Source: Research Section of the Yawata Iron and Steel Company.

program at the end of 1955 and during 1956, plunged into further rehabilitation and expansion programs so energetically that the Ministry of International Trade and Industry took "a very critical attitude toward these reckless expansion programs."<sup>31</sup>

Naturally, in the absence of subsidies, higher steel prices reflect themselves in higher costs in the steel-using industries such as machinery and equipment, metal products, rolling stock, etc. Paradoxically, therefore, it is just those Japanese industries which have

the best hope of expanding exports that are high-cost producers when compared with international competitors, while the older, lighter consumer goods industries, more of whose products it may be difficult in the future to sell abroad because of the growth of indigenous industry in underdeveloped countries, are lower-cost producers.

Two examples of the way in which Japan was outbid in the heavy equipment field, in the first instance by West Germany and in the second instance by Great Britain, may be seen in the following tabulation:

#### RESULTS OF INTERNATIONAL BIDS

Specifications	Bidding Country	Price Bid
Article: 225 ton crane	W. Germany	£54,107
Destination: India	W. Germany	59,411
Tender made: Sept. 1956	Austria	60,604
	W. Germany	64,427
	Japan	77,247
	U.S.A.	77,827
Article: 90,000 kw. electric generator	Britain	£ 969
Destination: India	W. Germany	983
Tender made: Sept. 1956	W. Germany	1,039
	Sweden	1,040
	Italy	1,101
	Belgium	1,151
	Japan	1,178
	France	1,188

*Source:* Japanese Machine Industries Association, Tokyo.

Even in one of the most active sectors of the machinery industry—shipbuilding, where the Japanese have staged a remarkable comeback to attain first place in world ship production—costs of production are higher than those of competitors. For comparable freighters, Japanese costs in steel materials and engines in 1954 were 34 percent higher than the British, and the total cost of the ship was made competitive only by the fact that the construction fees the Japanese charged were but 39 percent of the British fees.

Yet despite the fact that the machinery industry (including shipbuilding) is a high-cost, relatively inefficient branch, it has had one

TABLE V-6. EFFECTS OF RATIONALIZATION ON SHIPBUILDING IN JAPAN, 1949 TO 1957  
(MEDIUM SPEED FREIGHTERS)

NO. OF SHIPBUILDING PROGRAM	DATE OF ESTIMATE	COST INCREASE				PRICE OF MAIN PARTS				PROGRESS IN RATIONALIZATION			
		Thick Plate, Basic Price per Ton		Monthly Wage		PRICE OF SHIP PER GROSS TON		PER H. P.		Steel Material Used		Man-Hours Used	
		000 yen	Index	000 yen	Index	000 yen	Index	000 yen	Index	Tons	Index	Thous.	Index
Fifth	Aug. 1949	17.3	100	8.8	100	79.9	100	15	100	3,600	100	1,015	100
Sixth	Oct. 1950	33	190	9.4	106	84.4	105	18	120	3,560	99	953	94
Seventh													
1st half	Jan. 1951	50	288	10.9	124	115	144	24	160	3,500	97	922	91
2nd half	Oct. 1951	50	288	13.1	149	163	204	28	187	3,400	95	875	86
Eighth	Apr. 1952	49	282	14.8	167	156	195	30	200	3,340	93	874	86
Ninth													
1st half	Feb. 1953	47	270	16.1	182	148	185	28	187	3,340	93	798	79
2nd half	Aug. 1953	37	214	17.0	192	121	151	26	173	3,340	93	780	77
Tenth	Aug. 1954	38.5	222	18.8	212	103	129	22	147	3,000	83	686	68
Eleventh	Aug. 1955	44.2	255	22.3	251	100	125	19	127	3,000	83	626	62
Twelfth	Mar. 1956	51.5	298	24.4	275	110	138	24	160	2,900	81	546	54
Thirteenth	Mar. 1957	59.5	344	25.2	284	136.4	171	35	233	2,900	81	525	52

Source: Ministry of Transportation, Tokyo.

of the best performance records of any part of Japanese industry.<sup>32</sup> Its production index (1934-36 = 100) had by December 1956 reached four times the prewar figure. The index for machinery (413) was 165 points above the index for total manufacturing (248) and stood in marked contrast with Japan's most efficient industry, textiles (109.3).<sup>33</sup> Largely responsible for this strong showing were the new peaks in equipment spending recorded for most areas of Japanese industry in 1956. According to an official estimate, industrial equipment expenditures in 1956 were up 124 percent over 1955 in the building industry, 117 percent in iron and steel, 94 percent in chemicals, 87 percent in petroleum, 62 percent in paper and pulp, etc.<sup>34</sup>

This large expansion has afforded some sectors of the Japanese machinery industry an opportunity to rationalize, re-equip, and introduce new processes. For example, in shipbuilding the introduction of electric welding and improvements in engine building enabled shipbuilders to hold costs down. As Table V-6 reveals, despite the fact that the cost of steel plates was, in 1957, about 3½ times the 1949 level and wages had almost tripled, the yards were able to hold the increase in the cost of freighters to only 71 percent over 1949, by means of a 29 percent reduction in the amount of steel used and a 48 percent reduction in man-hours required.

Other industries, utilizing the 1955-56 expansion, have undertaken rationalization and cost reduction measures. In the production of ball bearings, for example, the use of steel per ton of ball-bearing production has been reduced by 16 percent, the use of heavy oil by 23 percent, and the use of electric power by 32 percent. In the electric power industry the loss of power in transmission has been reduced by 20 percent.<sup>35</sup> The Japan Light Metal Association reports that the rationalization measures undertaken by the Japanese aluminum refineries since 1951 have succeeded in reducing costs substantially. Labor requirements for the production of a ton of aluminum have been reduced from 12.1 working days to 8.8 working days. Furthermore, the refineries now need less alumina to produce a ton of aluminum. Bauxite requirements have been reduced from 2.24 tons to 2.11 tons; cryolite from 84 kilograms to 50 kilograms; and anode paste from 650 kilograms to 580 kilograms. The consumption of electricity per ton of aluminum has

been reduced from 22,000 kwh. to 19,000 kwh., mainly because of the increased current capacity of electrolytic furnaces.

To further such developments a Productivity Center was established in Japan in 1955, with the assistance of the U.S. International Cooperation Administration under an agreement signed in April 1955.<sup>36</sup> Furthermore, the preferential treatment in taxation provided for by the Rationalization Promotion Law, the financing undertaken by the Japan Development Bank, and other measures, have done much toward the modernization of production machinery. Certain industries have been singled out for special treatment. In the case of coal mining, for example, a sick industry, the Law Governing Temporary Measures for Rationalization was passed in 1955, providing, among other things, for closing of inefficient mines, restriction on opening others or sinking new shafts, etc.<sup>37</sup> Some have criticized measures of this type as undue government interference,<sup>38</sup> but they indicate the growing Japanese concern with out-of-line costs and reflect the desire of responsible leaders to make Japanese industries competitive.

There are, however, a number of limiting factors which impede Japan's efforts at restructuring its industrial processes.

In the first place, there is a basic maladjustment in Japan's industrial structure in that the small-scale pre-modern sector is disproportionate to the large-scale modern sector. For example, ac-

TABLE V-7. JAPANESE MANUFACTURING ENTERPRISES BY SCALE OF ESTABLISHMENT, 1955

	ESTABLISHMENTS		EMPLOYEES		VALUE OF OUTPUT	
	Number	% of Tot.	Number	% of Tot.	Bil. yen	% of Tot.
Total	432,715	100.0	5,516,647	100.0	6,769	100.0
<i>Establishments employing:</i>						
1 to 3 persons	245,597	56.8	553,029	10.0	207	3.1
Over 3	187,118	43.2	4,963,618	90.0	6,561	96.9
4 to 29	159,958	36.9	1,736,936	31.5	1,296	19.2
30 to 299	25,432	5.9	1,741,789	31.6	2,295	33.9
300 to 999	1,352	0.3	680,401	12.3	1,377	20.3
Over 999	376	0.1	804,492	14.6	1,593	23.5

Source: Census of Manufactures, 1955, Ministry of International Trade and Industry, Tokyo.

According to the latest Census of Manufactures, firms employing less than 30 persons were 93.7 percent of the total number of establishments, and employed 41.5 percent of those working in manufacturing, but were responsible for only 22.3 percent of the value of output. Firms employing 30 or more persons were but 6.3 percent of the total number but had 58.5 percent of all employees and were responsible for 57.7 percent of total manufacturing output (see Table V-7). Obviously the ability to modernize is largely confined to the larger firms—some 6 percent of all Japanese manufacturing enterprises—since the other firms are too small to attract capital or to have access to newer techniques and newer equipment.<sup>39</sup> The ability to attract foreign resources, techniques, and capital is probably confined to the 1,728 firms (0.4 percent of the total) which employ 300 or more workers (26.9 percent of total employees) and turn out 43.8 percent of the total product.<sup>40</sup>

Secondly, power resources have now become a bottleneck. Energy sources are reaching their limit and energy costs have risen significantly. The notion that hydroelectric power is cheap and abundantly available in Japan is now out-dated. Today there are few places in Japan where more hydroelectric power can be developed economically. In the last few years thermal power production has come to account for a large percentage of power development, reversing the subordinate position it had previously occupied vis-à-vis hydroelectric power. As a result, increased demands have been placed upon the sick coal industry, whose capacity for expansion has been relatively inelastic.<sup>41</sup>

The last decade in Japan therefore has seen two significant developments: (a) growing reliance on oil as an energy fuel and (b) greater dependence on the supply of energy resources from abroad. This is despite the fact that there has been a 40 percent expansion in the supply of electric power in Japan over the last decade.<sup>42</sup> In fiscal 1956, investment in the power industry amounted to one-third of total private plant and capital goods investment.

Of the gross volume of energy used in Japan, the ratio of imported energy, which was 10.6 percent in fiscal 1951, rose rapidly to 22.8 percent in fiscal 1956.<sup>43</sup> Petroleum imports, which several years back were comparatively low on the import list, rose to second place in fiscal 1956, second only to raw cotton. The growth in the use of petroleum may be seen from the following compilation:

JAPAN: COMPOSITION OF ENERGY DEMANDS, 1950-1956  
(percent of total)

Year	Power	Coal	Petroleum	Natural Gas	Lignite	Firewood & Charcoal
1950	32.8	51.1	4.9	0.1	1.0	10.1
1951	30.5	52.1	7.0	0.1	1.0	9.0
1952	32.4	47.0	11.1	0.1	1.0	8.4
1953	33.1	43.2	14.9	0.2	0.9	7.7
1954	34.7	41.2	15.6	0.2	0.8	7.5
1955	35.5	40.8	15.9	0.2	0.8	6.8
1956	35.8	40.0	17.3	0.2	0.8	5.9

*Source:* Ministry of International Trade and Industry, Tokyo.

According to the long-range forecast recently submitted to the government by the Industrial Rationalization Council, the share of coal in the total energy supply, which stood at 46.0 percent (Council's figure) in fiscal 1955, will dwindle to 38.3 percent in fiscal 1975 and that of water power from 30.1 to 24.9 percent, while the ratio for petroleum will leap sharply from 16.2 percent to 32.0 percent.<sup>44</sup>

The expected increase in the share of imported energy sources in Japan's total power consumption may be gauged from the following:

JAPAN: ENERGY, DOMESTIC AND IMPORTED, 1951-1975  
(percent of total)

	Fiscal 1951	Fiscal 1955	Fiscal 1956	Fiscal 1975
Domestic energy	89.4	80.1	70.8	59.0
Imported energy	10.6	19.9	29.2	41.0
Petroleum	7.3	16.4	22.8	32.0
Coal	3.3	3.5	6.4	9.0

*Source:* "Prospects of Demand and Supply of Energy 20 Years Hence," Ministry of International Trade and Industry, Tokyo.

It is thus clear that the increased supply of coal and electric power from domestic sources has not kept pace with industrial expansion. With the prospect of enlarging the production of coal apparently restricted, owing to economic and technical handicaps, and the outlook for new electric power development projects not particularly hopeful, also for economic reasons (although elaborate plans have

been and are being formulated), Japan will probably have to depend on coal and petroleum imports to supplement its own energy supplies, if further industrial expansion is to take place. Atomic power generation looms as a dim future hope, but the capital costs are huge and Japan's 1970 target of 3.5 million kw. from this source seems optimistic.<sup>45</sup>

The third limiting factor is that Japan's dependence on imports seems to be increasing rather than decreasing. Imports in fiscal 1956 were \$1,016 million, or 39 percent more than in fiscal 1955. Imports for the calendar year 1957 were 32 percent greater than in 1956. One survey declares:

For postwar days, the dependency on imports had been expected to decrease gradually in view of the further development of the heavy and chemical industries and the increased weight of the non-goods producing industries such as the service business as a result of the increased national income. In reality, however, the dependency increased. For instance in fiscal 1953 the rate of dependency was 15.4 percent as against the previous estimation of 12.2 percent, and in fiscal 1956 it rose to 15.7 percent, clearly indicating a gap between the plan and the result.<sup>46</sup>

Another study states:

The ratio of the value of imports to the gross national product increased from 11.2 percent in fiscal 1955 to 14.6 percent in fiscal 1956. Thus, the import increase in fiscal 1956 contained the short-term contributing factor of accumulation of raw material inventories but also the middle or long range factors of the vast expansion of the scale of the national economy and the increase in the degree of dependence on imports due to the shortage of domestic resources. This fact should not be overlooked.<sup>47</sup>

These three limiting factors—industrial maladjustment, power shortage, and growing dependence on imports—among others, make more difficult the transformation of Japan's industrial structure which is now under way, and which must be carried out if Japanese exports are to make their way in the world market in the face of changes brought on by growing industrialization in many countries over the past decade.



## VI

# The Fight Against Inflation

KATTE KABUTO NO O O SHIMEYO

When you have won a victory, tighten your helmet strings

IT IS a curious paradox that a country whose people are so devoted to frugality and thrift should have such a strong propensity to inflation as does Japan. Yet deficit financing has been the rule rather than the exception. The overall national government budget has been balanced in only two of the past 25 years. In the postwar period prices rose to more than 300 times the prewar level. Fiscal policy in Japan has usually had an inflationary bias. Only very occasionally has monetary policy been used effectively to check the upward climb of prices. Classic examples of its effective use were seen, however, in the October 1953-1955 period and in the spring of 1957. The results were so beneficial to Japan's economic progress that they will probably be cited in future years to illustrate what can be done when a government acts with firmness, intelligence, and determination.

As in the United States, the Great Depression brought an unbalancing of Japan's budget, a condition that was not to be corrected for some 18 years. The nadir of the depression in Japan was reached in the last quarter of 1931, and thereafter the economy expanded. April 1931 saw the advent of deficit financing; September 1931 marked the beginning of the Japanese occupation of Manchuria. The gold standard was abandoned in December 1931. Korekiyo Takahashi, Finance Minister from 1932 to 1936, who has sometimes been called the "Japanese Keynes," advocated deficit financing as a way out of the depression. He regarded 600 million yen as a safe limit for deficits, but the militarists needed more for the China campaign they were planning. Consequently Takahashi was assassinated

in 1936 for resisting further military expenditures, and thereafter the deficits rose. The sharp growth in military expenditures in the 1930's provided an inflationary fillip which greatly stimulated the economy. The total Army-Navy budget rose from 434 million yen in 1931 to 7,261 million in 1940. The military budget, which was 29 percent of total expenditures in 1931, rose to 65 percent in 1940. By 1937-38 the budget deficit was up to 1.5 billion yen and in 1940-41 it reached 6.9 billion yen.<sup>1</sup>

When the pressures mounted during the war period, 1937-45, the government adopted rigid financial controls, capital rationing, etc., and though prices rose, the controls were relatively effective. There was no runaway inflation, and finance was never a limiting or disruptive factor in the expansion of the war economy. The deficits rose in magnitude from 13.4 billion yen in 1941-42 to 76.6 billion in 1945-46, and the money supply (currency and demand deposits) expanded from 30 to 140 billion yen.<sup>2</sup> The extent of the latent inflation is apparent.

Real difficulties were encountered immediately after the surrender, when the relaxation of government authority resulted in an expenditure spree and a consequent sharp rise in prices. The Bank of Japan note issue stood at 30 billion yen on August 15, 1945, but in the ensuing six weeks some 40 billion yen more were paid out by military and civilian disbursing officers all over Japan. The resulting sharp rise in prices from September 1945 to March 1946—a 295 percent increase—led to a currency conversion in early 1946. This was effective for only a very short time; by November 1946 the note issue was back to the preconversion level, and prices rose sharply thereafter. The deficits continued to increase from approximately 103 billion yen in 1947-48 to 166 billion in 1948-49. Government debt rose from 150 billion yen in mid-1945 to 531 billion in mid-1949. From the end of 1945 to the beginning of 1949 the money supply rose from 140 billion yen to 787 billion.<sup>3</sup>

A wage-price spiral set in, and by the end of fiscal 1948 (April 1949) wages of all production workers in manufacturing were 168 times the 1934-36 base, while official wholesale prices were 186 times higher and effective retail prices 220 times higher. Legitimate business was severely handicapped. Limited by official prices, which were changed only once a year when the pressure became too great, legitimate enterprise grew increasingly short of working capital.

Wage and raw material costs rose throughout the year (especially on the black market), while fixed official prices tended to force sales on the black market if a profit was to be obtained. To produce the same volume of goods required more and more working capital each year as the inflation heightened. This strain on the working capital position of companies forced them to resort to large "deficit" loans from the government's newly created Reconstruction Finance Bank (RFB), which began operations in January 1947. Ostensibly the Bank was to grant loans only for acquisition of capital equipment, plant rehabilitation, etc., but its funds were quickly diverted to loans to make good deficits in working capital. Outstanding debentures of the RFB, most of which were sold to the Bank of Japan, rose rapidly from 4 billion yen in January 1947 to 131 billion in March 1949.<sup>4</sup>

Since ever increasing costs prevented firms from repaying most of their loans from the RFB, and since the RFB could not therefore repurchase its debentures from the Bank of Japan, the loans caused by the inflationary costs were continually monetized by the central bank and more and more money was thereby drawn into circulation and never returned. Thus inflation begot inflation.<sup>5</sup>

The spiraling inflation made prewar company capitalizations obsolete, but firms were prevented from revaluing assets by a 65 percent tax on "revaluation profits." Since, in addition to a flat 35 percent tax rate on corporate profits, there was an excess profits tax, the rates of which were based exclusively on earnings in relation to capitalization, any profit, in a postwar economic environment where prices were 300 times the prewar level, was subject to the top excess profits tax rate of 20 percent. To these national taxes were added a prefectural enterprise tax of 15 to 18 percent on business profits. Thus companies were taxed at a combined rate of from 60 to 65 percent. Not only did they have an incentive to sell in the black market because of the pressure of rising costs against fixed official prices, but they were also led to attempt widespread tax evasion.<sup>6</sup>

In order to hold down production costs and also to ease the plight of the consumer, who was suffering from the high cost of living, the government undertook a vast program of price subsidies. It is estimated that, at the time, half the cost of a ton of ingot steel was met by government subsidy. Imported foodstuffs were resold to consumers at 30 percent less than the landed costs. To enable exporters to meet world prices in spite of inflated yen costs at home, not only

were their production costs directly subsidized but in the absence of a fixed exchange rate a complicated system of implicit multiple rates was permitted to grow commodity by commodity. Thus the Foreign Trade Board would purchase goods for export from the producer, paying the producer's cost of production plus profit in yen, and would then sell the goods in world markets for the going price in dollars, the dollars being paid into the Dollar Trade Fund established by the Occupation. If the Board paid 6,000 yen for a bicycle and sold it abroad for \$20 there was thus established an implicit rate of 300 to 1. If wage and raw material costs of the bicycle producer rose and the Board paid him 8,000 yen, but the product continued to sell abroad for \$20, a rate of 400 to 1 resulted. The compulsion of a single exchange rate to hold costs down, to force rationalization to meet world market prices, was lacking.

Thus, by subsidies and a multiple exchange rate system, the Japanese producer was insulated from world market realities, and his mounting costs merely resulted in bigger government budget deficits either through larger subsidies or through greater deficiencies in the Foreign Trade Board's fund. By the 1949-50 fiscal year, price subsidies had surpassed Occupation costs to become the largest single item of expenditure in the Japanese budget, totaling 202 billion yen out of a general account total of 704 billion yen, or 28.7 percent.<sup>7</sup>

In the light of such conditions and in view of the apparent inability of Occupation authorities to cope with the situation, the U.S. State and Army Departments in December 1948 issued the "Program to Achieve Economic Stabilization to Be Carried Out by the Japanese Government" (the so-called "Nine-Point Economic Stabilization Program"), and early in 1949 Mr. Joseph M. Dodge, then president of the Detroit Bank,<sup>8</sup> was sent to Japan with the rank of Minister to bring economic order out of the monetary and fiscal chaos.

The theory of the stabilization program was that in order to reduce the cost to the American taxpayer of underwriting deficits in the Japanese economy, Japan had to become self-supporting. The United States had been subsidizing Japan to the extent of some \$500 million per year, largely used to purchase food and essential raw materials and fertilizers. Until Japan could raise production and exports enough to pay for these essential imports, the United States

would have to continue to fill the gap. To maximize exports, costs had to be brought down to the point where selling prices were in line with those in the world market. To bring costs down, inflation in Japan would have to be ended, payrolls trimmed, and rationalization achieved. To end inflation, the budget would have to be balanced, reckless uneconomic credit extension checked, and a single exchange rate established. It was to achieve such ends that the Dodge Mission labored, and in a very short time it produced an amazing financial about-face in Japan.

The achievements of the Dodge Mission<sup>9</sup> may be summarized as follows:

1. It ended deficit financing, and, in fact, produced what some termed a "superbalanced" budget, for not only did revenues cover expenditures in all accounts, but there was sufficient excess to provide for retirement of one-fourth of the total outstanding Japanese national debt and also to provide additional surplus funds for investment purposes for the rehabilitation of Japan's run-down capital plant. A 1948 budget deficit of 62.5 billion yen was converted into a 1950 budget surplus of 125 billion yen. Japan's yen debt was reduced from 446 billion yen in 1948 to 316 billion yen in 1950.

2. The extent of American aid to Japan was explicitly shown for the first time and provided for in the budget (as a special account) by the establishment of the Counterpart Fund. As shipments of U.S. aid were received, the Japanese government was required to deposit in the Fund the yen equivalent of the cost of the goods. Part of the Fund was used for debt retirement, part for investment.

3. A single exchange rate was set at 360 yen to \$1. Prior to World War II, in the mid-thirties, the yen was worth about 28 cents. Immediately after the surrender a military conversion rate of 15 to 1 was established. This was raised to 50 to 1 the following year, as the value of the yen declined, and in mid-1948, with the rapidly developing inflation, to 270 to 1. Of the multiple rates in existence before the setting of a single official exchange rate, on the export side some 80 percent were lower than 360 to 1. The remaining 20 percent of the export industries had to reduce costs to meet the new exchange rate requirements.

4. The deficit loans and enormous credit expansion activities of the Reconstruction Finance Bank were halted. New loans by the RFB could be made only out of the proceeds of repayment of out-

standing loans. All RFB debentures were to be retired. Thus the diminished activities of the RFB could no longer result in monetization of inflation-created debt. A number of government wholesaling and distribution corporations, known as *Kodans*, which, using RFB funds, had accumulated unnecessarily large inventories, thereby adding to inflationary pressures, were eliminated and their functions were restored to private enterprise.

5. Subsidies were eliminated immediately in some areas and in others were reduced gradually. In addition, all subsidies were explicitly shown in the new budget, in contrast with the large degree of concealment in previous budgets. A program for the complete elimination of all subsidies was prepared "to bring the Japanese economy down off its stilts," as Mr. Dodge put it.

6. Stock markets in the principal cities of Japan, which had been closed since the end of the war, were reopened in order to stimulate the flow of capital into industry and to increase security investment.<sup>10</sup> With industry in need of long-term capital and with an enormous quantity of formerly Zaibatsu-held securities to be disposed of to new investors through the government's Securities Coordinating Liquidation Commission and the "Holding Company Liquidation Commission," it was felt to be important to attempt to create much wider public acceptance of the concept of security ownership.

7. To direct the flow of bank credit into useful productive and economic channels, and to determine credit policy, a Credit Control Board was established, modeled along the lines of the U.S. Board of Governors of the Federal Reserve System, thereby providing a sort of directorate for formulation of monetary policy. In the field of taxation Mr. Dodge made no recommendations, since he did not wish to prejudice and thereby prejudice the work of the Shoup Tax Mission. He did, however, indicate informally to the Japanese government that it would have to maximize tax revenues, and he rejected a government request for an immediate reduction of tax rates.<sup>11</sup>

Japan's spiraling postwar inflation was brought to a temporary halt by the work of the Dodge Mission. The effectiveness of its stabilization program was seen in the decline of the consumer price index from a high of 142.5 in May 1949 (1948 = 100) to a low of 118.2 in June 1950. The Bank of Japan note issue was actually

lower in March 1950 (311.3 billion yen) than in March 1949 (312.5 billion yen). The Japanese complained of tight money, stagnant output, rising unemployment, and an increase in small business failures, but a government review noted: "The price-fall brought benefits to the consumers. Family expenditures and the real consumption level for the urban population was 17 percent higher in the April-June quarter of 1950 than in the same quarter of 1949."<sup>12</sup>

The outbreak of hostilities in Korea in June 1950 brought a halt to the stabilization program and led to an export boom, shortages of materials, and further inflation in Japan. The United States began its program of "special procurement" in Japan of supplies and equipment for United Nations forces in Korea, and Japanese exports rose sharply, by 60 percent, from April-June 1950 to October-December 1950. Thus in the second half of 1950 a \$9 million export surplus was recorded, the first since the end of World War II, whereas the first half of 1950 had witnessed a \$162 million import surplus. By June 1951 the cumulative total of special procurement reached \$315 million. Between June 1950 and March 1951 Japanese export prices increased by 90 percent. In the year following the outbreak of the Korean War, Japanese wholesale prices rose 52 percent, far surpassing rates of increase in other countries, e.g., 17 percent in the United States and 22 percent in the United Kingdom. Industrial production in Japan exceeded the prewar level for the first time in October 1950, and by April 1951 it was 52 percent higher than in April 1950.

The Korean war boom began to ebb throughout the world from April 1951 on, and the international price level dropped. The Japanese price level, however, failed to record any comparable decline. In fact, wholesale prices in Japan rose slightly between 1951 and 1952. Several factors were responsible for this. For one thing, the profits of the Korean boom were plowed back into Japanese industry as an investment boom carried the rate of net capital formation in Japan to a new postwar high. Thus the prices of metals, machinery and equipment, and other investment goods continued to rise. Because Japanese prices remained so far above world levels, certain Japanese export industries such as textiles were hard hit; in order to assist these industries the government undertook certain financial measures, such as the establishment of the Japanese Export-Import Bank in 1951, and increased government investment. The Japan

Development Bank was established in May 1951 with its total capital supplied by the government. These events, when coupled with the expansion of bank loans to the prosperous capital goods industries, had the total effect of increasing the money supply and thus maintaining inflationary pressures.<sup>13</sup>

At the time of his last official visit to Japan in late 1951, Mr. Dodge issued a very frank and critical statement which did not further endear him to the Japanese public. It read, in part, as follows:

At present, Japan is suffering from a plague of false legends, which include some dangerous delusions. A few of these are:

1. That Japan is a "special case" not affected by economic events that are affecting most other nations, when, as a nation dependent on imports, it is sure to be one of the first and most deeply affected.

2. That granting progressively larger amounts of commercial bank credit for capital purposes can be substituted for the normal processes of capital accumulation, without creating current credit shortages and the possibility of later difficulties.

3. That increased production without a parallel increase in exports represents sound progress.

4. That large amounts of foreign investment capital can be attracted to Japan under circumstances which do not offer political and financial stability.

5. That any use of foreign exchange will automatically replace itself.

6. That the projects most needed to protect and ensure the future of Japan, in terms of reducing the need to import and increasing the ability to export, can be done last instead of first.

7. That any future trade with Communist China will have the same advantages as it had before the war.

8. That the Korea wind-fall will be followed by another equally good or even better fair wind.

9. That in view of Japan's progress and the unusual external sources of it, substantial amounts of foreign aid will be obtained as easily in the future as in the past.

10. That inflation is a temporary phenomenon instead of a continuing pressure in an economy short of domestic supplies of raw materials, and that inflation easily can be offset by increased production under these circumstances.

11. That the recent excessive increase in domestic prices has been caused solely by the increase in import prices.

12. That a nation that must export to live can afford to price itself out of its export markets with a domestic inflation.



13. That a rapid and excessive increase in domestic prices is inflation anywhere else in the world but not in Japan.

14. That there is anything but trouble ahead in an attempt to chase inflationary price increases with stop-gap measures which merely feed the fires of inflation.

15. That every difficulty caused by excessive debt, speculative purchasing and similar acts of bad management always is the fault of others, it is not the inevitable result of the previous mistakes of the individuals concerned, and should be borne by the government or the consumers.

The progress and the present favorable status of Japan has been the result of a series of extremely fortunate external circumstances, which cannot be expected to be repeated and continued indefinitely.<sup>14</sup>

The more important trends in the Japanese economy from March 1949 through March 1952 may be seen in Table VI-1. The March

TABLE VI-1. CHANGES IN PRINCIPAL JAPANESE ECONOMIC INDEXES, 1949 TO 1952

(percent change from preceding year)

	March 1950	March 1951	March 1952
Industrial production	+ 5.8	+46.0	+13.3
Exports (volume)	+56.2	+40.3	+ 6.4
Wholesale prices	+15.3	+46.9	+ 5.6
Consumer prices	- 8.7	+14.7	+12.7
Wages	+14.3	+20.5	+24.5
Currency	- 0.4	+27.3	+15.5
Money supply (currency and demand deposits)	+ 5.6	+35.3	+16.6

Source: *Economic Survey of Japan (1951-52)*, Economic Stabilization Agency, Tokyo, July 1952, p. 31.

1950 column shows the impact of the Dodge stabilization program; the March 1951 column clearly indicates the effect of the Korean boom; and the March 1952 column shows the adjustment to lower rates of increase as the boom tapered off. Clearly the so-called post-Korean "slump" in Japan was nothing more than a slowdown in the rate of increase. During 1952 the Japanese economy marked time, leveling off on a kind of plateau established by the preceding Korea boom.

In 1953, however, Japan developed a genuine home consumption boom. Two things were strikingly manifest during 1953—a rise

in the national economic level and a marked deterioration of the trade balance. The domestic boom in 1953 saw the industrial production index (1934-36 = 100) reach a new peak—161—for the whole year. In December 1953 it stood at 172.6, a 24 percent increase over 1952. Wholesale prices remained firm, however, increasing by about 3 percent between March 1953 and March 1954, but declining slightly thereafter, as the following figures indicate:

1934-36	1945	1949	1950	1951	1952	1953	1954	1955	1956
1.0	3.5	208.8	246.8	342.5	349.2	351.5	349.2	342.9	357.9

The increase in output was accompanied by a marked expansion of bank credit, particularly to finance imports. Total money supply rose by 174 billion yen, or 14 percent. National income rose to 30 percent above prewar. Allowing for population increase, per capita income, like consumption, exceeded the prewar level (by 6 percent) for the first time. At 360 yen to the dollar, the Japanese national income worked out to \$160 per capita, one-eleventh of the U.S. figure and about one-fifth of the West German. Farm income increased despite the fact that output fell 20 percent. The increase in income was due to an increase in rice prices paid by the government. Income taxes were reduced at the beginning of the year. Business investment in plant and equipment rose 27 percent over the previous year.

The other side of the picture was the largest imbalance in trade that Japan had yet encountered. Exports were only \$1.3 billion while imports rose to \$2.6 billion. The result was a balance of payments deficit of some \$300 million, despite special procurement and allied expenditures in Japan of \$809 million. While most accounts of Japan's trade difficulties in 1953 place the blame on the fact that Japan overpriced its exports in world markets, the basic explanation seems to lie with imports. Exports were about the same in 1953 as in the previous year. Imports, however, were almost \$500 million higher, owing to (a) the sharp increase in domestic consumption, and (b) a 20 percent decline in the rice crop. Since the surplus the previous year had exceeded \$300 million, this shift in 1953 represented a worsening of Japan's balance of payments position by some \$600 million. Japan's foreign exchange reserves, which had reached a peak of over a billion dollars in 1952, dropped sharply to about \$700 million. This drain on scarce foreign ex-

TABLE VI-2. SUPPLY OF INDUSTRIAL FUNDS IN JAPAN, 1934-36, 1946-1956  
(million yen)

YEAR	EXTERNAL CAPITAL						INTERNAL CAPITAL <sup>a</sup>				PERCENT OF GRAND TOTAL			
	Total	Stocks and Shares	Corpo- rate Deben- tures	Loans and Discounts				Total	Depre- ciation	Retained Profits		GRAND TOTAL		
				Total	Financial Insti- tutions	Govt. Finan- cial Insti- tutions	Special Accounts for Financial Purposes						Bank of Japan Foreign Exchange Loans	
1934-36 av.	1,243	999	6	238	223	...	15	...	1,287	943	344	2,530	49.1	50.9
1946	59,153	4,516	—	55,867	56,091	...	—	224	18,877	19,932	1,055	78,030	75.8	24.2
1947	133,403	9,030	10	124,363	80,181	44,210	—	28	43,111	47,530	4,419	176,514	75.6	24.4
1948	437,703	59,366	207	378,130	312,117	66,949	—	936	89,463	87,130	2,333	527,166	83.0	17.0
1949	494,045	108,529	14,962	370,554	363,139	—	2,749	10,164	161,454	123,827	37,627	655,499	75.4	24.6
1950	514,063	31,919	43,476	438,668	372,555	—	16,036	29,854	345,407	149,733	195,674	859,470	59.8	40.2
1951	859,331	69,649	35,979	753,703	640,217	12,793	—	59,379	473,600	197,400	276,200	1,332,931	64.5	35.5
1952	1,022,652	122,359	36,975	863,318	796,495	26,831	—	70,425	434,900	278,800	156,100	1,457,552	70.2	29.8
1953	1,064,760	165,786	41,303	857,671	735,838	82,926	—	10,126	668,100	363,500	304,600	1,732,860	61.4	38.6
1954	613,140	142,133	18,468	452,599	405,168	100,029	—	17,518	656,400	454,000	202,400	1,269,540	48.3	51.7
1955	679,197	97,483	26,491	555,223	466,168	74,888	—	23,294	778,200	522,300	255,900	1,457,397	46.6	53.4
1956	1,498,838	258,440	57,646	1,182,752	1,087,666	70,606	—	34,128	1,005,300	591,300	414,000	2,504,138	59.9	40.1

— indicates net repayments.

<sup>a</sup> Internal capital surveyed by Economic Planning Agency.

Source: Bank of Japan, Tokyo.

change was accompanied by an overextension of bank credit and heavy borrowings by commercial banks from the Bank of Japan. Credit expansion exceeded the increase in deposits. Commercial bank borrowings from the Bank of Japan increased by 76 billion yen in 1953 compared with only 9 billion yen in 1952.<sup>15</sup> The ratio of loans to deposits, which had averaged 69.2 percent in 1934-36, rose to 98.7 percent in 1953. Prices, which had been relatively stable during the first half of the year, began to rise again during the second half.

This resurgence of inflationary pressures and deterioration in Japan's balance of payments, together with the alarming loss of foreign exchange, led to action by the monetary and fiscal authorities. With considerable political courage the Yoshida Government moved to resort to the classic remedy of tight money.<sup>16</sup> In October 1953 the Bank of Japan began to tighten import financing. It raised money rates three times between October 1953 and March 1954—from 7.0 percent at the beginning of 1953 to 8.5 percent by mid-1954.<sup>17</sup> At the same time the government cut back its budget sharply, reducing public investment by 17 percent. Planned expenditures by the Japan Development Bank, the nation's largest long-term lending agency, were cut 23 percent below the 1953 level. Foreign exchange allocations, effective April 1, 1954, sharply slashed allotments to importers of nonessential goods.

The curtailment of credit is reflected in the decline in the amount of industrial funds which the banks furnished to industry, as well as in the decrease in new stock and bond issues. As may be seen in Table VI-2, the total supply of industrial funds fell from 1,065 billion yen to 613 billion, with bank loans declining from 513.6 billion yen to 211.9 billion. On the other hand, deposits rose by 446 billion yen as consumers turned from their 1953 spending spree to increased savings in 1954. Thus the increase in deposits and the decrease in the use of funds for industrial and import purposes gave the commercial banks a plentiful supply of funds, which they used in part to repay their Bank of Japan loans.<sup>18</sup> Such loans, which had exceeded 400 billion yen in early 1954, fell to half that figure a year later, and by March 1956 were down to a nominal 27 billion yen. This was central bank credit curtailment on a major scale.

The proclivity of the Japanese economy to inflation was checked during 1954 and 1955, as the following Bank of Japan wholesale price index shows:

## BANK OF JAPAN WHOLESALE PRICE INDEX (1934-36 = 100)

Dec. 1950	Dec. 1951	Dec. 1952	Dec. 1953	Dec. 1954	Dec. 1955	Dec. 1956
28,436	35,624	34,229	36,016	34,369	34,299	35,797

Source: *Economic Statistics of Japan for 1956*.

The remarkable stability of the Japanese price level in the two years following the imposition of the tight money program may be seen in Table VI-3. The impact of the program began to be felt in

TABLE VI-3. WHOLESALE PRICE INDEXES IN JAPAN AND OTHER COUNTRIES, 1937-1938, 1948-1956

(1953 = 100)

Year	Japan	India	Philippines	United Kingdom	United States
1937	0.4	27	28	33	51
1938	0.4	24	26	31	46
1948	36	93	129	66	95
1949	59	97	113	70	90
1950	70	102	100	80	94
1951	87	112	110	97	104
1952	99	98	101	100	101
1953	100	100	100	100	100
1954	99	98	95	101	100
1955	98	90	92	104	101
1956	102	97	96	108	104
<i>Percent change:</i>					
1948-55	+172	- 3	- 29	+ 58	+ 6
1948-56	+183	+ 4	- 26	+ 64	+ 9

Sources: 1937 to 1951, *Monthly Bulletin of Statistics*, United Nations, May 1952; 1951 to 1955, *ibid.*, June 1956; 1956, *ibid.*, May 1957.

March 1954. Wholesale prices reached a peak in February and then fell off until August.<sup>19</sup> The reduction was not great—about 6 percent—and the price index turned up slightly during the last half of the year. Japan's trade position improved significantly as imports declined and exports rose, owing to (a) the decline in export prices, (b) the greater attention which producers paid to the export market

in view of the decline in domestic demand, and (c) the easing of import restrictions on Japanese goods by sterling area countries. Despite a decline in special procurement receipts, which fell from \$809 million in 1953 to \$596 million in 1954, a small surplus (about \$100 million) was achieved in the balance of payments for the calendar year 1954, in contrast with the previous year's huge deficit. Foreign exchange reserves climbed back to approximately \$950 million. Japanese exports in 1954 reached a new postwar peak. Despite small business failures, industrial production held up, as Table VI-4 indicates. Counterbalancing this, however, was the fact that

TABLE VI-4. CHANGES IN PRINCIPAL JAPANESE ECONOMIC INDEXES, 1950 TO 1957

(percent change March 31 to March 31)

	1953 to 1954	1954 to 1955	1955 to 1956	1956 to 1957	1950 to 1956	1950 to 1957
Money supply	+ 9	+ 1	+20	+ 20	+105	+146
Bank loans and discounts	+19	+ 9	+11	+ 32	+281	+403
Industrial production	+18	+ 2	+13	+ 22	+165	+224
Bank of Japan loans and discounts	+43	-40	-89	+912	- 75	+154
Wholesale prices	+ 4	- 4	0	+ 7	+ 53	+ 64
Import prices	- 5	0	- 3	+ 3	+ 4	+ 7
Export prices	- 1	- 4	+ 4	+ 1	+ 34	+ 36
Exports (volume)	+17	+29	+29	+ 20	+201	+262
Foreign exchange reserves	-27	+57	+32	- 10	+159	+133

Sources: *Economic Statistics of Japan*, Bank of Japan, Tokyo; *Economic Statistics Monthly*, Bank of Japan, Tokyo; *Monthly Bulletin of Statistics*, United Nations; *International Financial Statistics*, International Monetary Fund.

1954 was the first year in the postwar decade that industrial output failed to expand. The index (1934-36 = 100) was 168.5 in December 1954, as against 172.6 in December 1953.

On the other hand, the Bank of Japan note issue at the end of 1954 was below the previous year-end total. This was the first instance in 23 years (since the depression in 1931) that the annual year-end bank note issue total had declined—a significant achieve-

TABLE VI-5. MONEY SUPPLY IN JAPAN AND OTHER COUNTRIES, INDEXES, 1937-1938, 1948-1956  
(1953=100)

	1937	1938	1948	1949	1950	1951	1952	1953	1954	1955	1956	Percent Change 1948-56
Japan												
Currency	0.3	0.5	55.3	55.4	67.0	80.7	91.0	100.0	99.0	106.4	122.3	+121
Deposits	0.4	0.6	33.8	41.3	45.8	67.1	85.6	100.0	103.6	126.5	153.9	+355
Total	0.4	0.5	43.0	47.1	54.8	72.8	87.9	100.0	101.7	118.0	140.5	+228
India												
Currency	15.4	14.5	108.5	104.3	105.1	103.4	98.3	100.0	104.3	118.8	127.4	+ 17
Deposits	24.1	24.1	129.6	111.1	114.8	109.3	108.7	100.0	113.0	122.2	127.8	- 1
Total	18.1	17.5	115.2	106.4	108.2	105.3	100.0	100.0	107.0	120.0	127.5	+ 11
Philippines												
Currency	16.8	21.2	85.7	84.8	101.4	96.7	94.6	100.0	101.7	100.6	109.3	+ 27
Deposits	15.1	13.1	102.9	74.2	99.3	92.7	101.8	100.0	98.6	119.4	139.8	+ 36
Total	16.0	17.5	93.5	80.0	100.4	94.8	97.9	100.0	100.2	109.2	123.2	+ 32
United Kingdom												
Currency	30.1	30.1	81.7	83.0	83.7	88.9	94.1	100.0	105.9	113.1	120.3	+ 47
Deposits	30.2	29.8	96.8	98.0	99.8	99.8	98.2	100.0	102.5	99.2	98.0	+ 1
Total	30.2	32.7	92.6	93.9	95.3	96.7	97.1	100.0	103.4	103.1	104.2	+ 13
United States												
Currency	20.1	20.9	93.9	91.4	91.4	94.6	98.9	100.0	100.4	101.8	102.2	+ 9
Deposits	21.2	25.2	82.8	83.1	89.4	95.1	98.3	100.0	103.2	106.4	107.2	+ 29
Total	22.6	24.3	85.1	84.8	89.8	95.0	98.4	100.0	102.6	105.4	106.1	+ 25

Sources: *Statistical Yearbook, 1956*, United Nations, and *Monthly Bulletin of Statistics*, United Nations, May 1957.

ment of the tight money policy. As Table VI-5 shows, total money supply was held at about the previous year's level.

The policy of monetary restraint continued through 1955. The Mitsui Bank noted:

It can be said that extraordinary was the diminution of the Bank of Japan loans in 1955 when city banks paid back some ¥400,000 million of their borrowings from the Central Bank during a single year. The balance of the Bank of Japan's loans was reduced from the peak of ¥418,700 million as of September 6, 1954 to ¥31,900 million as of December 31, 1955.<sup>20</sup>

The Japanese economy moved forward rapidly in 1955. The Bank of Japan observed:

As regards the Japanese economy brisk business activities, worthy of being expressed in such a phrase as "an inflationless prosperity" or a "quantitative boom," were prevalent during the year 1955; whereas in 1954 the economy assumed a conspicuously deflationary appearance owing to the direct and full impact of the policy of financial retrenchment.<sup>21</sup>

Japan's balance of payments showed real improvement, excess foreign exchange receipts for the year 1955 reaching \$494 million, a marked increase over the 1954 surplus of \$100 million. Foreign exchange reserves rose to a new high of \$1.4 billion. Spurred by a substantial expansion of exports, industrial activity rose sharply, and this, coupled with a bumper rice crop, brought widespread economic gains.

Despite this improvement in the economy, the continued enforcement of the tight money policy kept domestic investment and consumer demand at relatively restrained levels, while it stimulated exports and operated to restrain any increase in commodity prices (see Table VI-6). The price level in 1955 was almost stabilized with only small fluctuations. Prices reached a low point in July (146.7), rose slightly through October (155.0), and then declined again to 152.5 in December.

The improvement in economic conditions brought further benefits in the money and banking situation. Owing mainly to the substantial excess disbursements from the Foreign Exchange Fund and the Food Control Special Account, reflecting both the gain in exports and the bumper rice crop, Treasury accounts showed an ex-



TABLE VI-6.

## PRICES OF SELECTED JAPANESE COMMODITIES COMPARED WITH THOSE OF PRINCIPAL OVERSEAS COMPETITORS, 1953-1957

(Japanese price as percent of price in base country)

	Type of Price <sup>a</sup>	Base Country	Sept. 1953	Sept. 1954	Sept. 1955	March 1956	Sept. 1956	March 1957	Aug. 1957
Cotton yarn	M	U.S.	105.3	90.5	83.9	83.0	92.7	81.9	75.3
Cotton fabric	M	U.S.	102.5	86.2	84.8	91.0	93.3	87.1	86.5
Rayon filament yarn	M	Italy	91.9	66.7	65.5	83.3	90.3	82.3	64.4
Rayon staple yarn	M	U.K.	94.2	57.5	59.7	61.7	66.2	54.4	45.3
Steel bar	Q	Belgium	117.2	89.4	108.6	110.3	120.4	119.9	125.0
Steel plate	Q	W. Germany	107.1	91.2	108.3	118.4	128.6	129.4	134.1
Electrolytic copper	Q	U.S.	135.0	126.9	102.0	109.6	116.5	127.5	128.1
Ammonium sulphate	E	W. Germany	126.2	118.4	115.1	118.5	117.0	157.4	116.7
Caustic soda	M	U.K.	179.1	136.9	134.1	155.4	162.1	160.6	—
Rayon pulp	Q	Canada	123.4	116.8	115.4	111.0	113.3	113.3	113.3
Crude soybean oil	M	U.S.	121.0	182.9	185.3	129.2	148.3	136.0	129.5
Crude rubber	M	Singapore	115.1	115.0	110.9	103.4	100.7	101.7	103.2
Raw hides	M	U.S.	172.3	149.4	138.9	125.3	136.3	150.3	146.3

<sup>a</sup> M = market price; Q = quoted price; E = export price.

Source: Bank of Japan, Tokyo.

TABLE VI-7. MAIN ECONOMIC AND FINANCIAL INDICATORS, JAPAN, 1946-1956

YEAR	BANK OF JAPAN	EXCESS OF RECEIPTS OR PAYMENTS OF GOVT. FUNDS WITH THE PUBLIC <sup>a</sup>		INCREASE OF BANKING ACCOUNTS OF ALL BANKS <sup>a</sup>		TOKYO PRICE INDEX (1934-36=1)		TOKYO CONSUMPTION INDEX <sup>c</sup> (1934-36=100)
	JAPAN NOTE ISSUE, INCREASE OR DECREASE <sup>a</sup> (bil. yen)	BANK OF JAPAN LOANS & DISCOUNTS, INCREASE OR DECREASE <sup>a</sup> (bil. yen)	GOVT. FUNDS PUBLIC <sup>a</sup> (bil. yen)	DEPOSITS	LOANS & DISCOUNTS	Wholesale <sup>a</sup>	Consumer <sup>b</sup>	
1946	+ 37.9	+ 12.6	.....	25.0	48.8	16.3	.....	.....
1947	+125.8	- 18.1	.....	89.5	21.8	48.2	109.1	55.4
1948	+136.1	+ 19.6	.....	271.0	213.1	127.9	189.0	61.2
1949	+ 0.1	+ 36.7	- 84.8	286.7	297.7	208.8	236.9	65.0
1950	+ 66.7	+ 25.9	+ 31.1	256.5	315.7	246.8	219.9	69.8
1951	+ 84.3	+108.5	- 35.4	457.8	523.1	342.5	255.5	68.9
1952	+ 70.1	+ 0.2	- 2.4	717.5	610.2	349.2	266.1	80.2
1953	+ 53.4	+ 75.5	- 94.9	483.8	543.2	351.6	286.2	94.0
1954	- 7.8	- 55.4	+190.1	329.0	240.7	349.2	301.8	100.0
1955	+ 51.8	-211.3	+276.6	687.7	283.9	342.9	297.4	106.5
1956	+111.1	+108.0	- 19.4	1,039.1	869.0	357.9	300.2	109.4

YEAR	WAGE INDEX, MFG. <sup>d</sup> (1934=1)	EMPLOYMENT INDEX, (1934=100)	MINING & MANUFACTURING INDEXES (1950=100) <sup>e</sup>		DEPARTMENT STORE SALES <sup>g</sup> (bil. yen)	FOREIGN EXCHANGE, EXCESS OF RECEIPTS OR PAYMENTS <sup>a</sup> (mil. dol.)	FOREIGN TRADE <sup>f</sup> (mil. dollars)	
			Production	Producer Deliveries			Producer Stocks	Export
1946	—	—	36.2	—	2.7	—	103.3	305.6
1947	32.9	137.8	46.0	—	10.5	—	173.6	526.1
1948	91.9	139.3	60.9	—	27.2	—	258.3	684.2
1949	157.1	140.7	78.3	—	45.8	—	509.7	904.8
1950	187.9	133.9	100.0	100.0	68.8	+331.1	820.1	974.3
1951	235.2	144.0	134.8	130.4	170.1	+331.3	1,354.5	2,047.9
1952	272.2	148.5	146.5	140.7	135.5	+314.3	1,272.9	2,028.2
1953	307.0	155.4	167.0	164.7	177.6	-193.7	1,274.8	2,409.6
1954	325.8	162.9	185.6	172.6	199.0	+99.9	1,629.3	2,399.4
1955	340.4	160.7	204.5	188.1	212.3	+493.7	2,010.6	2,471.4
1956	376.7	167.4	247.8	226.1	206.3	+293.3	2,501.0	3,229.6

*Sources and Notes:*

<sup>a</sup> From Bank of Japan.

<sup>d</sup> From Ministry of Labor.

<sup>f</sup> From Ministry of Finance. Based on customs house returns; figures for 1946 cover the period September 1945-December 1946; import value in yen for 1951 is converted into dollars at the rate of 360 yen per dollar.

<sup>b</sup> From Statistics Bureau.

<sup>e</sup> From Ministry of International Trade and Industry.

<sup>g</sup> From Economic Planning Agency.

cess disbursement of 288 billion yen during 1955. As a result the money market eased, since the demand for funds was moderate. Bank deposits rose by 731 billion yen during fiscal 1955, the banks repaid their loans to the central bank, and their so-called "over-loaned" condition was bettered. The ratio of loans to deposits fell to 83.5 percent. Since the tight money policy placed emphasis on the restriction of excessive imports, all Bank of Japan preferential arrangements for import financing were either curtailed or abolished. In August, the Bank of Japan's interest rate policy was revised to make the official rate more effective, to improve the Bank's credit control mechanism, and to rectify what had been an extremely distorted interest rate system.<sup>22</sup>

Thus from the last quarter of 1953 through 1955 Japan pursued a classic tight money policy with extremely effective and successful economic results. One can agree fully with the Bank of Japan's comment that: "As a result of the implementation of the tight money policy, the economy and money and banking in this country have been remarkably improved, with capital accumulation accelerated, general demand for funds being sluggish and the price level stabilized."

During 1956, however, signs of inflationary pressures began to re-emerge in Japan, as indeed they did in most other leading industrial countries. The increased liquidity of the banks, and the decline in interest rates, led to renewed borrowing. The Industrial Bank, the Development Bank, and the People's Finance Corporation lowered their interest rates and expanded loans for long-term development projects. The foreign exchange allocation for imports was sharply increased. Wholesale prices rose steadily throughout 1956, exceeding by midyear the previous peak of February 1954, attained before the tight money policy became effective.<sup>23</sup>

Wholesale commodity prices rose 8.7 percent during 1956, in contrast with a dip of 0.2 percent during the previous year. Monetary pressures back of the price rise were clearly apparent. Loans made by all banks during the year amounted to 869.9 billion yen, approximately triple the 1955 figure of 283.9 billion yen. The note issue rose by 111 billion yen, more than twice the previous year's increase, and bank deposits rose by more than one trillion yen<sup>24</sup> (see Table VI-7). Most significant of all was the expansion of credit by

the central bank. Bank of Japan loans *rose* by 108 billion yen in 1956, compared with a *decrease* of 211 billion yen in 1955.<sup>25</sup> Since the Bank of Japan also absorbed 36.1 billion yen of short-term government securities sold by financial institutions in 1956—in contrast with its sale to financial institutions of 39.9 billion yen of short-term governments in 1955—the total change in central bank credit was an *increase* of 144 billion yen in 1956 compared with a *decrease* of 251 billion yen in 1955.<sup>26</sup>

With industrial production in Japan up 22 percent over the previous year, bottlenecks, particularly in electric power and coal supply, began to appear in the economy in late 1956 and early 1957. When the draft of the budget was submitted to the Diet, calling for a large tax reduction and a marked increase in expenditures, thus prospectively contributing to the inflationary pressures through fiscal policy,<sup>27</sup> the Policy Board of the Bank of Japan moved on two occasions in the spring of 1957 to raise the Bank's discount rate, finally bringing it up to 8.39 percent.<sup>28</sup> Masamichi Yamagiwa, Governor of the Bank of Japan, said the intent of the action was three-fold: to force an increase in loan rates by commercial banks, thus making credit more costly; to slow the rate of capital investment; and to reverse the growing deficit in Japan's foreign trade.<sup>29</sup>

*Nihon Keizai* reported:

The Bank of Japan, on April 26, 1957, sent for leading executives of the nine big Tokyo banks including Fuji, Mitsubishi, Dai-Ichi, Mitsui, Kangyo, Kyowa, Kogyo, Long-Term Credit, and Tokyo, and strongly entreated them through the chief of the Bank's Business Department to the effect that, the present rapidly deteriorating balance of payments situation forbids the Bank to go on increasing its advances, and therefore, banks hereafter are advised and expected to extend new credits only in so far as could be financed by collection of their loans. This was taken as the manifestation of a firm attitude on the part of the Bank of Japan not to approve of any increase in the outstanding bank loans in the future. It is certain that the Bank's policy of curbing credit mostly through suasion at the Bank's counter, would be further strengthened.<sup>30</sup>

The Financial System Research Council released the draft of a plan to establish legal reserve requirements for commercial banks, a move which would also limit credit expansion.<sup>31</sup>

In June the Bank of Japan ordered the nine leading commercial

banks to cut their proposed lending by 50 percent. In July, the Bank of Japan ordered the nine banks to hold their volume of new loans to the limit of funds they received in repayments. Bankers said that this was the first time that the central bank had ever issued such an order. Both private enterprise and government were persuaded to reduce their investment plans by 15 percent. As a means of curbing imports, the amount of deposit required as security for importing goods was raised, and 5 percent in cash had to be deposited with the Bank of Japan. Both the Bank of Japan and the commercial banks lowered rates on discounts and advances on export bills.<sup>32</sup>

Despite these measures, *Nihon Keizai* reported:

The banking results for the first half of the business year 1957 (April-Sept.) of all banks of the country, as made public by the Bank of Japan, show a huge increase in loans during the period of ¥420,500 million, which nearly equals the extraordinary gain in the same period last year of ¥461,300 million. Although stringent monetary policy was put into effect since May last, it has not yet had sufficient influence upon industrial activities during the period and demands for funds continued enormous.<sup>33</sup>

In his opening speech before the three-day conference of branch managers of the Bank of Japan, on October 3, 1957, Governor Yamagiwa indicated his determination to continue the tight money policy as long as necessary. He said the effects of the stringency had begun to be felt in distribution but not in production.<sup>34</sup> Loans amounting to \$125 million and \$175 million were obtained from the International Monetary Fund and from the U.S. Export-Import Bank to mitigate the expected further decline in foreign exchange reserves.

As in 1953, it was again the sharply deteriorating balance of payments position in the spring of 1957 which caused the monetary authorities to take vigorous action. The decline in the balance of payments position resulted from very rapid industrial expansion in 1956, particularly in the field of capital goods, which caused imports to rise much faster than exports, thereby depleting foreign exchange reserves rapidly and drastically.

The extent of the rise in capital investment in Japan during the last half of 1956 and the first half of 1957 may be seen from the following:<sup>35</sup>

## NEW LOANS FOR EQUIPMENT, ALL BANKS

	(million yen)	
1953	200,757	+14.5%
1954	172,942	-13.9
1955	174,829	+ 1.1
1956	299,071	+71.1
Jan.-June	117,570	+41.7
Jan.-June	181,500	+97.6
1957		
July-Dec.	200,708	+70.7

The consequence of this surge in buying new equipment was a remarkable increase in imports. While exports rose 12 percent during the first six months of 1957 as compared with the same period in 1956, imports jumped by 67 percent. The resulting deficit of \$399 million in the balance of payments brought foreign exchange reserves well below what is considered an adequate level. For the first eight months of 1957, the deficit in international payments amounted to \$570 million, well in excess of a third of Japan's total foreign exchange reserves at their 1956 peak.<sup>36</sup> The policy of restraint took hold during the latter half of 1957 and the payments deficit for the year was reduced slightly to \$533 million.

The sharp deterioration in Japan's foreign exchange position during the last half of 1956 and the first half of 1957 may be seen from the following:

## JAPAN: FOREIGN EXCHANGE RECEIPTS AND PAYMENTS, 1953-1957

(million dollars)

	Total Receipts	Total Payments	Excess of Receipts (+) or Payments (-)
1953	2,120	2,314	-194
1954	2,309	2,209	+100
1955	2,667	2,173	+494
1956	3,224	2,931	+293
Jan.-June	1,565	1,316	+249
July-Dec.	1,659	1,615	+ 44
1957	3,642	4,175	-533
Jan.-June	1,754	2,153	-399
July-Dec.	1,888	2,022	-134

Source: *Foreign Exchange Statistics*, Bank of Japan, December 1957.

TABLE VI-8. NATIONAL INCOME AND TAX BURDEN, JAPAN,  
1930, 1935, 1940, 1947-1957

FISCAL YEAR	NATIONAL INCOME (bil. yen) (A)	AMOUNT OF TAX			TAX BURDEN		
		National (mil. yen) (B)	Local (mil. yen) (C)	Total (mil. yen) (D)	B/A %	C/A %	D/A %
1930	11.7	1,103	602	1,705	9.4	5.1	14.5
1935	14.4	1,202	634	1,837	8.3	4.4	12.7
1940	30.9	4,219	784	5,003	13.6	2.5	16.1
1947	968.5	189,601	20,198	209,799	19.6	2.1	21.7
1948	1,962.2	447,746	77,709	525,455	22.8	4.0	26.8
1949	2,737.8	636,406	142,441	778,847	23.2	5.3	28.5
1950	3,363.2	570,849	188,281	759,130	17.0	5.6	22.6
1951	4,537.8	723,144	272,264	995,408	15.9	6.0	21.9
1952	5,206.4	843,031	307,766	1,150,797	16.2	5.9	22.2
1953	5,833.5	942,521	336,053	1,278,574	16.2	5.8	22.0
1954	6,049.7	934,083	366,778	1,300,861	15.2	6.0	21.2
1955	6,743.5	936,892	381,491	1,318,383	13.9	5.7	19.7
1956	7,655.0	1,064,997	427,684	1,492,681	13.9	5.6	19.5
1957	8,180.0	1,094,848	460,513	1,555,361	13.4	5.6	19.0

*Notes:*

1. The figures of national income are based on the estimates for the respective fiscal years made by the Economic Planning Agency.
2. The figures of national taxes, including payments of monopoly (inclusive of alcohol monopoly profits), relate to the settled account for the years through F.Y. 1956, and to the budget for F.Y. 1957.
3. The figures of local taxes, which do not include allocation tax and shared tax, relate to the settled account for the years through F.Y. 1956 and to the estimates of revenue for F.Y. 1957.

*Source:* Ministry of Finance, Tokyo.



The sharp increase in output for domestic use and the rise in prices began once again to reduce Japan's international competitive power. Its prices rose relative to those of its principal international competitors. For example, Japanese cotton yarn, which was 10 percent lower than the Italian product at the beginning of 1956, was 5 percent higher by the end of the year. Japanese electrolytic copper, which was priced the same as the Belgian product at the beginning of 1956, was 23 percent higher by the end of the year.

In the face of these economic developments the stringent monetary measures undertaken were clearly justified and essential. What was foolhardy from an economic point of view, though politically understandable, was the largest tax relief measure since the war, representing a saving of up to 50 percent for the average salaried man. Whether a reduction of income taxes, amounting to 125 billion yen, is justifiable at a time when the government is increasing its expenditures, when the economy is operating at a strained level, and when the central bank is attempting, by monetary policy, to contain inflation, can be questioned, especially since the burden of taxes has been falling steadily in Japan since 1949<sup>37</sup> (see Table VI-8).

Clearly, Japan cannot hope to expand its volume of exports significantly—which it must do if industrial output is to continue to grow without balance of payments difficulties—unless the prices of its exports are held in check. This can, of course, be achieved only with political courage, and at considerable hazard, as Mr. Yoshida learned. The reluctance of Japanese politicians to press the issue firmly is not surprising. Yet Japan's great dependence on foreign trade and its extensive trading relationships in the world economy clearly point to the need for checking inflation and reducing costs and prices. Monetary and fiscal policy, when employed together, are very useful tools for this purpose. It is discouraging, therefore, to see them working so often in Japan at cross purposes.

## VII

# Trade and Payments

MAKERU GA KACHI      To lose is to win

A U. S. Congressional Committee declared recently:

Of all the industrial countries of the world, Japan's dependence on foreign trade is unique. . . . it would appear that foreseeable circumstances will cause Japan to become increasingly dependent on foreign trade. . . . The economic problems facing Japan are directly related to the problems of maintaining and expanding her export markets, for it is her exports that determine her capacity to import, to maintain production in her manufacturing industry, and to provide employment for her growing labor force.<sup>1</sup>

To absorb millions of new additions to the labor force over the next decade, industrial output in Japan must expand significantly. Since Japanese industry is so greatly dependent on imported raw materials and foodstuffs, imports will have to be increased substantially. To earn the foreign exchange to pay for these imports, export sales will have to be expanded materially. Thus there is a kind of circular interrelationship in Japan's economy. Failure to maintain or expand export markets will mean failure to maintain or expand employment, because of inability to increase imports, which are essential for expanded industrial output. Stepping up production for home consumption alone may only involve Japan in balance of payments difficulties, as it did in 1953 and again in 1957. For a larger output sold at home requires larger imports, but increased home consumption not only diverts goods from the export market but tends to raise the Japanese price level, thus further discouraging exports because of the superior attraction of the home market. The resulting drain on the foreign exchange balance precipitates a crisis

in the external accounts and, unless taken in hand, results in further inflation in Japan, a depreciation of the exchange value of the yen, and in time a curtailment of imports, which leads to reduced industrial production and ultimately a rise in unemployment. Expanded foreign trade is thus vital to both economic and political stability in Japan.

A leading Japanese economist estimates that to absorb the expected annual increase in the labor force and to achieve full employment by 1965, Japan will require a gross national product (GNP) of \$37.5 billion (in 1955 prices).<sup>2</sup> The gross national product in 1955 was \$22.5 billion. If achieved, at least 13 percent of Japan's \$37.5 billion GNP in 1965 must come from imports. Assuming that U.S. special procurement has ceased by 1965, exports of \$5 billion (in 1955 prices), or double the present level of exports (\$2.5 billion in 1956), will be required to pay for needed imports. Can Japan double its exports by 1965? An examination of trends in Japanese foreign trade over the last decade may help to answer this question.

#### FOREIGN TRADE 1946-1956

Prior to World War II Japanese trade amounted to 5 percent of world trade. The intricate web and fabric of commerce which Japan had built up so skilfully and laboriously was destroyed completely in World War II, as a result of Japan's own action. In the first post-war year (1946) Japan's exports amounted to a mere \$100 million. In the course of the next decade they grew to \$2.5 billion (1956). This 25-fold increase was of course a remarkable achievement. It was aided by the very substantial expansion of total world trade over this period—a decade of unprecedented world prosperity.<sup>3</sup> The stimulus provided by the Korean War brought a \$500 million increase in Japanese exports in 1950-51, while the period from the end of 1953 through 1956 saw Japan's exports double.

But despite these substantial achievements there was less cause for rejoicing than might, at superficial glance, be apparent. In every year from 1945 through 1956 Japan had an unfavorable balance of trade. Its exports increased but its imports rose faster. The total trade gap over the 11-year period amounted to \$6,016 million, a deficit which Japan would have been unable to incur had it not been

TABLE VII-1. JAPANESE TRADE AND PAYMENTS, 1946-1957  
(million dollars)

YEAR	CUSTOMS DATA, MINISTRY OF FINANCE		FOREIGN EXCHANGE STATISTICS, BANK OF JAPAN		U.S. AID & SPECIAL PROCUREMENT	
	Exports	Imports	Receipts	Payments	Aid	Spec. Proc.
Sept. 1945-						
Dec. 1946						
1947	103.2	305.6			192.8	
1948	173.5	526.1			404.4	
1949	258.2	684.2			461.0	
1950	509.7	904.8			534.7	
1951	820.0	974.3			361.3	149
1952	1,354.5	1,995.0	1,008.3	677.2	156.7	592
1953	1,272.9	2,028.2	2,240.5	1,909.2	0.5	824
1954	1,629.2	2,409.6	2,239.1	1,924.8		809
1955	2,010.6	2,399.4	2,120.0	2,313.7		596
1956	2,500.6	2,471.4	2,309.2	2,209.2		557
1957	2,853.0	3,229.7	2,667.6	2,173.8		595
		4,283.0	3,224.7	2,931.4		549
			3,642.0	4,175.0		

Note: The principal differences between the Ministry of Finance data and the Bank of Japan data are as follows:

*Ministry of Finance*

Not included.  
Included.

*Bank of Japan*

Included.  
Not included.

1. Invisible trade.
2. Exports and imports without drafts.
3. Accounting date.

4. Value.
5. Quantum statistics.

Exports: Date of departure of shipments from ports.  
Imports: Before July 1, 1951, date of arrival of shipment at port of entry; since then, date for which shipments are cleared for entry by the Customs Bureau.

Exports FOB; imports CIF.  
Included.

Sources: Ministry of Finance, Customs Division, Tokyo; Foreign Exchange Statistics, Bank of Japan, Tokyo.

for U.S. aid and "special procurement."<sup>4</sup> Over the same period these amounted to \$6,233 million, just covering the trade gap.

During the first half of the postwar decade Japan received direct aid from the United States amounting to \$2,111 million, while over the latter half "special procurement" amounted to \$4,122 million (see Table VII-1). It was thus the expenditure of over \$6 billion of U.S. funds which permitted Japan not only to incur and meet a continuing trade deficit of major proportions, but also to build up its foreign exchange reserves to \$1.5 billion. Never, in the annals of history, had a vanquished nation received such a helping hand from the victor.

Yet despite this material assistance Japan has not yet regained its prewar share of world trade. As Table VII-2 indicates, it had by 1956 only a little more than half the share of total world exports it had before the war. Before World War II Japan was fourth among world exporting nations; in 1956 it was eighth. Thus Japan has not yet succeeded in restoring its position in international trade. The ratio of exports to national income, which was 18 percent before the war, had by the end of 1956 risen to only 12 percent. Some observers, noting the lower percentage of exports to national income, erroneously conclude that Japan is less dependent on foreign trade than it was in the thirties. Nothing could be further from the fact.

On a volume basis, Japanese exports in 1956 were 85 percent of the 1937 level, while industrial production was 172 percent. When it is remembered that over the same period Japan's population increased from 70 million to over 90 million, it is clear that exports have failed to keep pace. Imports rose more rapidly in 1956 than

TABLE VII-2. JAPANESE AND WORLD TRADE, 1938, 1952-1956

YEAR	WORLD (million dollars)		JAPAN (million dollars)		JAPAN AS PERCENT OF WORLD	
	Imports	Exports	Imports	Exports	Imports	Exports
1938	23,250	20,650	1,070	1,109	4.6	5.37
1952	79,200	72,300	2,028	1,273	2.6	1.76
1953	75,800	73,300	2,410	1,275	3.2	1.74
1954	79,000	76,100	2,399	1,629	3.0	2.14
1955	88,000	82,800	2,471	2,011	2.8	2.44
1956	96,900	91,900	3,229	2,501	3.3	2.74

Source: *Monthly Bulletin of Statistics*, United Nations, October 1957.

either exports or production. Imports of raw materials, which account for more than 65 percent of Japan's total imports, increased \$641 million in 1956, a rise of 43 percent over the previous year, which far exceeded the increase in production. In 1957 raw material imports rose by \$809 million, or 37 percent, above 1956. The principal reason appears to be that there was little elasticity in the supply of domestic raw materials. For example, the rates of increase in the consumption of imported scrap iron and steel, iron ore, and coking coal all exceeded the rate of increase in iron and steel production. Increased demands for energy resulted in a 10 percent increase in coal output and a 15 percent increase in the supply of electricity; but imports of petroleum rose 25 percent. The Economic Planning Agency observed: "During the past six years, the industrial production went up 100 percent, whereas the imported raw material consumption increased by 134 percent, indicating that Japanese industry has a deep-rooted tendency toward higher dependence on imports." And the White Paper on Foreign Trade stated: "Thus, the more production rises, the more Japan needs raw material imports that exceed production. This is a sorry situation resulting from her natural resources."<sup>5</sup> Japan in the postwar period is thus more, not less, dependent on foreign trade than ever before.

The trade results for 1953-56 were, however, encouraging. Over this period world exports rose 24 percent. West Germany's exports rose 67 percent. Japan's exports rose 95 percent. Or, as the Japanese Economic Planning Agency observed: "The percent increase in the world's total exports was four percent in 1954, nine percent in 1955, and 10 percent in 1956. In the case of Japan, the percentage increase in fiscal 1954 was 28 percent, that in fiscal 1955, 24 percent and in fiscal 1956, 22 percent."<sup>6</sup> Yet if exports were growing, imports were growing faster. In 1956 imports rose by \$1 billion.<sup>7</sup> In 1957 imports again rose by an additional billion dollars over 1956. The 32 percent increase in imports contrasts with a 14 percent increase in exports.

#### THE BALANCE OF PAYMENTS, 1950-1956

Except for 1953, Japan's position has been comfortable as regards its balance of payments, largely by reason of U.S. special procurement expenditures—despite an unbroken postwar series of annual deficits in both trade and normal invisible items. As Table VII-3

TABLE VII-3. FOREIGN EXCHANGE RECEIPTS AND PAYMENTS, JAPAN, 1950-1957  
(million dollars)

YEAR	R E C E I P T S				P A Y M E N T S			EXCESS OF RECEIPTS (+) OR PAYMENTS (-)
	Exports	Invisible Items			Imports	Invisible Items	Total	
		Special Procurement	Other	Total				
1950	773	149	86	235	646	32	677	+331
1951	1,297	592	351	943	1,725	184	1,909	+331
1952	1,289	824	126	950	1,718	206	1,924	+314
1953	1,156	809	155	964	2,101	213	2,314	-194
1954	1,532	596	181	777	1,961	248	2,209	+100
1955	1,954	557	157	714	1,848	326	2,174	+494
1956	2,402	595	228	823	2,470	461	2,931	+293
1957	2,781	549	312	861	3,752	604	4,175	-533

Source: *Foreign Exchange Statistics Monthly*, Bank of Japan, Tokyo, December 1957.

reveals, Japan achieved a surplus in its balance of payments from 1950 to 1956, except for 1953. Special procurement constituted the largest component of invisible receipts.

The London *Financial Times* remarked in 1957:

Japan's international solvency is still dependent upon special United States Government spending. The nation's \$293 million foreign exchange surplus for 1956 comes as a result of these official expenditures. It represents a substantial drop from 1955's \$494 million favorable balance. Although Japan's commodity exports increased about 25 percent during the year, net overseas purchases soared 35 percent compared with 1955. . . .

However, Japan's deficit in commodity trade and normal invisible accounts was more than offset by \$595 million in special dollar earnings. This figure includes \$278 million from yen sales to American military personnel stationed in Japan, \$187 million in military supply orders, and \$124 million in ICA [International Cooperation Administration] purchases, principally for third countries receiving United States aid.

Although these earnings cannot be considered a normal part of Japan's trade, most officials are not unduly concerned that the favorable trade balance hinges on official American spending. It is generally felt that while yen sales and military orders may gradually decline, large orders will be placed in Japan for goods destined for other Asian nations under the United States aid programme.<sup>8</sup>

The inflationary impact of the Korean War, and the increase in industrial activity and employment resulting from the special procurement expenditures engendered therefrom, spread through the economy with multiplier effects, raised incomes and purchasing power, and culminated in the domestic consumption boom of 1953. In that year imports increased by some \$400 million while exports were stagnant. Consequently, despite special procurement expenditures of more than \$800 million in 1953, a deficit of \$194 million was incurred in the balance of payments, compared with the previous year's surplus of \$314 million (achieved through special procurement expenditures of \$824 million).<sup>9</sup>

The rise in prices, the unfavorable trade trends, and the loss of foreign exchange (see Table VII-4) alarmed the Japanese authorities, and in the fall of 1953 vigorous policies of monetary and fiscal restraint were adopted, designed to reduce government expenditures for investment, to curtail imports, and, by reducing domestic prices,



TABLE VII-4. JAPANESE FOREIGN CURRENCY HOLDINGS, 1950-1957<sup>a</sup>

Date	Dollars (mil. dol.)	Sterling		Net Credit Position, Open	Total (mil. dol.)
		(mil. dol.)	(mil. £)	Accounts (mil. dol.)	
June 30, 1950	278	48	17	34	360
Dec. 31, 1950	443	46	17	48	537
June 30, 1951	325	122	44	38	485
Dec. 31, 1951	584	211	76	120	915
June 30, 1952	678	355	127	135	1,168
Dec. 31, 1952	782	266	95	122	1,170
June 30, 1953	834	93	33	57	984
Dec. 31, 1953	808	119	43	69	996
June 30, 1954	550	126	45	135	811
Dec. 31, 1954	682	228	81	192	1,102
June 30, 1955	707	295	105	187	1,187
Dec. 31, 1955	911	291	104	245	1,447
June 30, 1956	1,092	233	83	246	1,571
Dec. 31, 1956	1,211	145	52	267	1,623
June 30, 1957	750	116	41	261	1,127

<sup>a</sup> These figures exclude gold and silver holdings.

Source: Bank of Japan, Tokyo.

to stimulate exports. The policy was effective. Between 1953 and 1955, exports rose \$800 million, or 69 percent. As a result of this gain in exports, of prosperous and expanding world trade, and of the record rice output (which made it possible to hold food imports in check), Japan in 1955 attained a surplus of \$494 million—its best balance of payments position since the war.

In view of these favorable developments, of the rise in foreign exchange reserves to over \$1.5 billion, and of world prosperity, which promised continuance of a very high and expanding level of world trade, the Japanese decided to permit a much greater volume of imports than previously. Foreign exchange allocations for imports were increased sharply,<sup>10</sup> and as a result, in 1956 imports were some 30 percent higher than in 1955. Since exports rose by \$500 million, while special procurement expenditures remained roughly the same as the year before, the payments surplus in 1956 was \$200 million less than in 1955, as Table VII-3 indicates. Dur-

ing 1957 Japan incurred a trade deficit of \$1.4 billion and lost over \$500 million in foreign exchange. As a result imports had to be curtailed, money tightened, and new investment restricted.

In seeking to determine whether Japan will be able to double its exports by 1965, it may be useful to examine the causes of the 1954-56 trade boom. It is, of course, neither possible nor desirable to isolate a few out of many elements in the picture and make dogmatic pronouncements regarding cause and effect. One can only suggest the probable importance of certain factors. Of possible significance were (a) Japan's internal disinflationary policies, (b) special export incentive schemes, such as the link system, subsequently discontinued, (c) rising world demand and expanding world trade, (d) relaxation of sterling area restrictions, (e) improvements both in the quality of Japanese exports and in the efficiency of Japanese industry, and (f) the not insignificant fact that Japanese foreign traders, perhaps for the first time since 1937, were on their own, relatively unrestricted and unfettered.<sup>11</sup> An examination of the direction of Japanese trade and of its composition will help to make these factors apparent.

#### THE DIRECTION OF TRADE

In the 1950's the dollar area provided, on the average, half of Japan's annual imports, or double the percentage supplied before the war. The dollar area, mainly the United States, replaced the yen bloc as the main source of Japan's imports. It took, however, only a little more than a third of Japan's exports. The resultant dollar gap was tenable only because of U.S. special procurement expenditures.<sup>12</sup>

The sterling area, on the other hand, took over a third of Japan's exports during the 1950's but provided only one-quarter of its imports. Hence, from time to time, when sterling balances appeared to be accumulating too rapidly in Japanese hands, the British imposed restrictions on sterling purchases of Japanese goods. Trade, consequently, has been erratic. As Table VII-5 reveals, the British restricted imports of Japanese goods in 1953, and as a result Japan's exports to the sterling area fell to half of the previous year's figure. At the same time Japanese imports from the sterling area reached a new high, almost double the exports. So unfavorable was their balance of trade that the Japanese were forced to use dollars to purchase

TABLE VII-5. JAPANESE EXPORTS AND IMPORTS BY SETTLEMENT CURRENCY, 1950-1957

(million dollars)

YEAR	TOTAL	U. S. DOLLAR		POUND STERLING		OPEN ACCOUNT		ALL OTHER <sup>a</sup>	
		Value	%	Value	%	Value	%	Value	%
1950: Exports	772.8	364.3	47	226.0	29	182.4	24	—	—
Imports	645.5	284.3	44	200.4	31	160.6	25	—	—
1951: Exports	1,297.3	302.1	24	562.5	43	432.6	33	—	—
Imports	1,725.1	979.6	57	429.0	25	316.4	18	—	—
1952: Exports	1,289.1	395.6	31	596.5	46	296.9	23	—	—
Imports	1,718.3	954.9	56	532.4	31	230.8	13	—	—
1953: Exports	1,156.3	481.3	42	313.9	27	361.0	31	—	—
Imports	2,100.9	1,019.1	49	617.2	29	464.6	22	—	—
1954: Exports	1,532.4	486.0	32	507.7	33	538.5	35	—	—
Imports	1,961.6	1,129.6	58	351.9	18	480.0	24	—	—
1955: Exports	1,954.1	757.9	39	728.7	37	466.3	24	1.2	—
Imports	1,848.2	871.2	47	532.4	29	442.8	24	1.7	—
1956: Exports	2,402.2	1,098.3	46	904.7	38	374.7	15	24.4	1
Imports	2,470.2	1,178.8	48	864.4	35	383.8	15	42.9	2
1957: Exports	2,781.1	1,275.6	46	1,184.8	43	259.2	9	61.5	2
Imports	3,571.7	1,946.2	55	1,252.6	35	266.9	7	106.0	3

<sup>a</sup> All other includes Canadian dollar, Swiss franc, German mark, and Swedish krona for 1955 and 1956, and for 1957 also French francs and Dutch guilders.

Source: *Foreign Exchange Statistics Monthly*, Bank of Japan, Tokyo, December 1956.

sterling from the International Monetary Fund. The following year, 1954, they reduced their sterling area imports sharply while Britain, on the other hand, relaxed restrictions. The result was a very favorable balance for Japan, the reverse of the previous year. Since then Japan and Britain have been, by agreement, attempting to balance their trade at new and higher levels.

The Japanese, aware of the continuing possibility that their supply of American dollars, in the form of special procurement expenditures, might be curtailed, have attempted from time to time to shift to sterling area sources of supply. While they have not succeeded in reducing dollar imports, they have expanded both their sterling area imports and their exports to the dollar area. Between 1951 and 1956, as Table VII-5 shows, imports from the dollar area rose only 20 percent, while imports from the sterling area increased by 100 percent. Over the same period exports to the dollar area rose 263 percent while shipments to the sterling area increased by 60 percent.

An examination of the direction of Japan's trade on a country by country basis reveals that the outstanding feature of Japan's growing export trade is increasing diversification both as to markets and as to products.<sup>13</sup> Except for the United States, no one country now absorbs more than 10 percent of total Japanese exports. Only three countries bought more than 5 percent, each, of the total. This is an advantageous development for Japan because it means that Japan is flooding no one country with excessive quantities of goods. It tends to reduce the degree of foreign resentment and retaliation which Japan is likely to encounter as its trade expands.

The most significant change in the direction of Japan's trade since the war appears to be the relative decline in the importance of Asia and the rise of North America, South America, and Africa. The change in Asia's position is due, of course, to the war, which shattered the old commercial relations between Japan and China on the one hand and between Japan and Korea on the other. In contrast, Japanese trade with Southeast Asia and with the United States has expanded significantly (see Tables VII-6 and VII-7). A number of industrial raw materials and foodstuffs which Japan formerly obtained from nearby areas are now supplied by either Southeast Asia or the United States. Since Japan's trade with the United States, with Southeast Asia, and with Communist China is treated in detail in the subsequent chapters, it is sufficient to note

TABLE VII-6. JAPANESE EXPORTS BY MARKETS, 1935, 1950, 1955-1956

(million dollars)

	1935		1950		1955		1956	
	Value	%	Value	%	Value	%	Value	%
Asia	579.1	63.6	380.1	46.2	842.9	41.9	1,022.2	40.9
Korea	155.2	17.0	18.1	2.1	39.4	1.9	63.9	2.5
Taiwan	60.5	6.6	38.0	4.5	63.8	3.1	77.8	3.1
Mainland China	159.7	17.5	19.6	2.4	28.5	1.4	67.3	2.7
Southeast Asia	168.9	18.6	274.2	33.1	507.4	25.0	529.9	21.2
Europe	71.9	7.9	95.5	12.0	205.7	10.2	250.4	10.0
United Kingdom	33.0	3.6	25.9	3.1	60.7	3.0	63.2	2.5
North America	152.5	16.7	197.4	23.8	501.7	24.9	619.5	24.8
United States	148.8	16.3	179.2	21.6	449.2	22.3	543.3	21.7
Canada	2.2	0.2	14.6	1.7	45.1	2.2	69.1	2.7
Central & South America	28.8	3.5	43.8	5.2	178.9	8.9	165.4	6.6
Argentina	8.0	0.8	20.9	2.5	79.1	3.9	38.9	1.5
Brazil	1.6	0.1	2.3	0.2	33.4	1.6	45.2	1.8
Africa	51.1	5.6	73.3	8.9	205.5	10.2	392.5	15.7
Australia & Oceania	26.3	2.8	29.9	3.6	75.5	3.7	50.6	2.0
Others	—	—	—	—	0.2	—	—	—
Total	910.0	100.0	820.0	100.0	2,010.6	100.0	2,500.6	100.0

Source: Ministry of Finance, Tokyo.

TABLE VII-7. JAPANESE IMPORTS BY MARKETS, 1935, 1950, 1955-1956

(million dollars)

	1935		1950		1955		1956	
	Value	%	Value	%	Value	%	Value	%
Asia	464.1	51.1	315.5	32.6	903.9	36.6	1,047.9	32.4
Korea	135.0	14.9	15.7	1.6	9.5	0.4	11.1	0.3
Taiwan	87.2	9.6	35.8	3.7	80.9	3.3	45.5	1.4
Mainland China	97.2	10.7	39.3	4.1	80.8	3.3	83.6	2.6
Southeast Asia	144.7	15.9	193.0	20.0	519.1	21.0	644.4	19.9
Europe	97.5	10.7	38.5	4.0	175.0	7.1	231.5	7.1
United Kingdom	22.8	2.5	6.7	0.7	37.9	1.5	66.6	2.0
North America	241.4	26.6	450.2	46.5	965.1	39.0	1,338.4	41.4
United States	225.0	24.7	418.2	43.2	772.3	31.2	1,064.6	32.9
Canada	14.7	1.6	15.4	1.6	108.8	4.4	144.1	4.4
Central & South America	12.2	1.3	52.3	5.3	160.0	6.5	222.7	6.9
Argentina	4.4	0.4	30.7	3.2	22.2	0.9	36.0	1.1
Brazil	1.1	0.1	1.6	0.2	59.3	2.4	50.2	1.5
Africa	19.2	2.1	26.3	2.7	62.9	2.5	101.4	3.1
Australia & Oceania	69.2	7.6	84.4	8.8	204.4	8.3	287.6	8.9
Others	5.3	0.6	7.1	0.7	0.1	—	0.2	—
Total	908.9	100.0	974.3	100.0	2,471.4	100.0	3,229.7	100.0

Source: Ministry of Finance, Tokyo.

here that the shift has had important consequences for Japan's balance of payments, even though it was due more to political than to economic forces.

The increased trade with Latin America was largely the result of the adoption of a bilateral clearing system in trade with Argentina and Brazil. The sharp increase in the importance of Africa in Japan's export picture is mainly the consequence of the export of ships to companies maintaining Liberian registry. Of total Japanese exports to Africa in 1956, Liberia accounted for over 50 percent. Of total Japanese exports of ships, 80 percent went to Liberia in 1956; 70 percent in 1955. In 1956 Japan's exports to Liberia

#### JAPAN'S LEADING EXPORT MARKETS, 1956

Rank	Country	Value of Japanese Exports
1.	United States	\$543,306,000
2.	Liberia	225,644,000
3.	Hongkong	134,461,000
4.	India	105,297,000
5.	British West Africa	78,367,000
6.	Malaya and Singapore	77,911,000
7.	Formosa	77,858,000
8.	Indonesia	76,031,000
9.	Communist China	67,339,000
10.	Indochina	64,954,000
11.	Korea	63,593,000

#### JAPAN'S LEADING IMPORT SOURCES, 1956

Rank	Country	Value of Japanese Imports
1.	United States	\$1,064,540,000
2.	Australia	248,434,000
3.	Canada	144,116,000
4.	Saudi Arabia	138,289,000
5.	Malaya and Singapore	136,664,000
6.	Mexico	128,105,000
7.	Philippines	116,758,000
8.	India	103,414,000
9.	Indonesia	91,457,000
10.	Communist China	83,647,000

Source: "Foreign Trade of Japan: 1957," *Foreign Trade White Paper*, Ministry of International Trade and Industry, Tokyo, September 1957.

amounted to \$225.6 million; imports from Liberia to but \$1.3 million.<sup>14</sup> On the other hand, in trade with Australia, because of its very large wool purchases, Japan's imports in 1956 totaled \$248.4 million; its exports were only \$30.8 million.<sup>15</sup>

One should not, however, lose sight of the overall picture. Japan's imports come primarily from North America and from Southeast Asia (56 percent combined in 1956), while its exports go mainly to those two areas (51 percent in 1956). This may be seen from the tabulation on page 121 of the leading countries in Japan's trade.

#### COMMODITY COMPOSITION OF JAPANESE TRADE

The bulk of Japan's imports are essential commodities such as foodstuffs and industrial raw materials necessary to sustain the Japanese economy (see Table VII-8). Over the last five years the Japanese have had to pay more than \$600 million annually to import food needed for domestic consumption. Another \$650 million annually has been, and indeed must be, spent for textile raw materials. Other industrial raw materials such as metallic ores, fuel, minerals, chemicals, etc., cost Japan \$1.5 billion in 1956.

Of food imports, rice comes from Thailand, the United States, Burma, Formosa, and Communist China (listed in order of importance as suppliers to Japan); wheat from the United States and Canada;<sup>16</sup> sugar from Formosa, Cuba, Indonesia, Brazil, and Australia. Raw cotton comes from the United States, Mexico, Pakistan, Brazil, India, and Egypt; wool mainly from Australia. Malaya, the Philippines, and India are the chief sources of Japanese iron ore imports, while the United States provides the bulk of the coking coal. Two-thirds of Japan's imports of machinery (by value) are obtained from the United States; more than half of its imports of phosphate ore come from the dollar area, as do half its imports of crude oil. Even in hides and skins Japan obtains 70 percent of its import requirements from dollar sources. Crude rubber comes primarily from the sterling area, salt from Communist China, soybeans two-thirds from the U.S. and one-third from Communist China. Most of Japan's lumber imports come from the Philippines. For balance of payments reasons Japan would prefer sterling area



TABLE VII-8. JAPAN'S DEPENDENCE ON IMPORTS, 1934-36, 1950-1956  
(imports as percent of total supply<sup>a</sup>)

	Av. 1934-36 <sup>a</sup>	1950	1951	1952	1953	1954	1955	1956
<i>Food:</i>								
Rice	8.6	5.7	8.1	10.0	11.5	13.6	9.5	6.8
Wheat	24.5	52.9	52.6	55.0	55.7	60.6	60.9	62.3
Barley	0.9	18.9	45.9	43.8	25.7	38.0	39.4	44.9
(Staple food) <sup>c</sup>	9.6	14.2	22.4	22.4	22.9	23.1	23.7	—
Soybeans	69.8	37.8	39.1	25.7	50.2	57.4	61.4	62.8
Sugar	97.7	92.5	93.4	95.0	95.3	95.2	96.0	93.6
<i>Industrial materials:</i>								
Phosphate rock	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Raw cotton	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Wool	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Tin ore	87.2	64.8	85.7	73.1	85.5	—	94.9	—
Bauxite	—	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Iron ore	93.4	64.0	77.7	82.5	79.7	81.0	78.3	81.2
Coal	11.1	2.1	4.3	7.2	9.6	7.4	6.5	7.6
(Coking coal)	—	9.4	20.4	30.2	32.3	28.4	26.1	26.6
Crude oil <sup>d</sup>	93.5	81.0	88.6	98.1	94.7	95.2	96.0	97.1
Rayon pulp	81.4	24.0	17.2	21.0	26.7	26.7	22.7	25.7
Crude rubber	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Salt	65.0	60.6	80.4	77.2	75.0	80.2	78.2	78.6
Abaca	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

<sup>a</sup> Calculated by dividing the volume of imports by the sum of imports and domestic production.

<sup>b</sup> Prewar figures include imports from Japanese dependencies.

<sup>c</sup> The figures for staple food represent the quantity of rice, wheat, barley, rye, etc., in terms of rice.

<sup>d</sup> Crude oil imports in 1934-36 include heavy oil.

Source: Ministry of International Trade and Industry, Tokyo.

and open account countries as sources of imports, but during the last decade the greater availability of supplies and relatively lower prices in dollar countries have provided a strong economic incentive for the private Japanese business purchaser to buy in the most advantageous market.

The changing industrial structure in Japan, described in chapter V, is reflected in the changing composition of Japan's exports. During the 1930's consumer goods, especially textiles, predominated (see Table VII-9). The pattern is shifting, however, in response to the requirements of foreign markets.<sup>17</sup> Japan had 40 percent of the world trade in cotton textiles in 1938, 23 percent in 1955. In 1955 capital goods exports accounted for very nearly the same percentage of Japan's total exports as textile products. In 1956, because of a large increase in exports of ships, capital goods exports forged ahead, supplying 37.2 percent of the total, against 34.8 percent for textiles. Exports of textiles are still of major importance in Japan's trade. In fact, in 1956 cotton fabrics ranked first among export products, totaling \$266 million and accounting for 10.7 percent of total exports. But ships were second, amounting to \$260 million, 10.4 percent of total exports, and iron and steel products, totaling \$223 million (8.9 percent) were third in importance<sup>18</sup> (see Table VII-10). In 1955 the value of iron and steel exports exceeded that of cotton textiles. In 1956 steel exports fell to third place because the industry, barely able to meet the domestic demand, lacked both the capacity and the incentive for exports.

One-half of the total increase in exports in 1956 was accounted for by metal products and machinery (70 percent being ships). Textile products, which amounted to one-third of total exports, accounted for one-quarter of the total increase in shipments. If the capacity of the iron and steel industry had been sufficient to maintain exports on a scale comparable to 1955, the heavy and chemical industries might have supplied 50 percent of total exports in 1956. The extent to which the capital goods industries have been eclipsing the light industries in export expansion may be seen in Table VII-9.

Compared with the thirties, textile exports have lagged badly, with the exception of synthetic fibers. Only 9.6 million pounds of raw silk were exported in 1956, compared with an annual average of 69 million pounds in 1934-36. In silk fabrics only 48 million square yards were exported in 1956, compared with 85 million in the mid-

TABLE VII-9. STRUCTURE OF JAPANESE EXPORT TRADE, 1934-36, 1947, 1950, 1952, 1954, 1955, 1956

	(percent of total)						
	Av. 1934-36	1947	1950	1952	1954	1955	1956
Consumer goods							
Food	70.7	72.2	57.9	47.9	52.8	48.3	46.6
Textile products <sup>a</sup>	9.5	6.1	6.1	7.8	8.3	6.8	7.2
Non-metallic products	58.2	51.8	48.2	35.6	40.3	37.3	34.8
Capital goods	3.0	13.5	3.6	4.5	4.2	4.2	4.6
Chemical products	19.6	14.4	29.9	38.5	32.6	36.2	37.2
Metals & metal products	4.3	4.5	1.9	3.1	4.8	4.7	4.3
Machinery	8.2	3.5	18.1	26.8	15.4	19.2	13.6
Other manufactures	7.1	6.4	9.9	8.6	12.4	12.3	19.3
Total	9.7	13.4	12.2	13.6	14.6	15.5	16.2
Total value in million dollars	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total value in million dollars	906.1	173.6	820.0	1,272.0	1,629.3	2,010.6	2,500.6

<sup>a</sup> Textile products include chemical fiber products (including raw materials).

Source: Ministry of Finance, Tokyo.

TABLE VII-10. JAPANESE EXPORTS BY MAJOR COMMODITIES, 1934-36, 1950, 1955-1956

COMMODITY	UNIT	1934-36 AVERAGE			1950			1955			1956		
		Quan- tity	Value (mil. \$)	% of Tot.	Quan- tity	Value (mil. \$)	% of Tot.	Quan- tity	Value (mil. \$)	% of Tot.	Quan- tity	Value (mil. \$)	% of Tot.
Raw silk	Mil. lbs.	68	103.1	11.4	12	39.0		11	50.0	2.4	9.9	41.8	1.7
Silk fabrics	Mil. sq. yds.	125	21.5	2.3	60	22.1		30	15.7	0.7	47.9	22.4	0.9
Cotton yarn	Mil. lbs.	51	11.5	1.2	23	16.5		26	24.3	1.2	27.3	26.3	1.1
Cotton fabrics	Mil. sq. yds.	2,849	153.2	16.5	1,107	207.0		1,138	229.8	11.4	1,261.8	266.6	10.7
Woolen yarn	Mil. lbs.	6	3.3	0.4	..	1.6		7	17.4	0.8	7.3	13.7	0.5
Woolen fabrics	Mil. sq. yds.	41	13.5	1.5	3	4.3		17	27.8	1.3	22.3	33.4	1.3
Rayon filament yarn	Mil. lbs.	32	7.1	0.8	..	..		18	8.9	0.4	18.5	9.0	0.4
Rayon fabrics	Mil. sq. yds.	475	37.8	4.1	152	38.3		342	60.6	8.0	438.0	87.9	3.5
Rayon staple yarn	Mil. lbs.	..	..	..	1	0.6		39	16.3	0.8	35.3	16.0	0.6
Spun rayon fabrics	Mil. sq. yds.	..	..	..	44	10.6		521	82.4	4.0	694.8	122.3	4.9
Fish & shellfish	Thous. met. tons	107	..	2.7	51	29.3		155	75.6	3.7	196.3	120.6	4.8
Tea	Mil. lbs.	35	3.4	0.4	15	5.0		31	9.7	0.4	22.5	5.6	0.2
Cement	Thous. met. tons	988	4.8	0.5	485	6.1		1,206	22.4	1.1	2,107.2	37.9	1.5
China ware		..	14.0	1.5	..	15.0		..	41.9	2.0	..	49.5	2.0
Ammonium sulphate	Thous. tons	8	..	0.01	480	2.2		4,130	24.9	1.3	475.5	28.7	1.1
Iron & steel prods.	Thous. met. tons	412	18.6	2.0	589	72.1		1,988	259.4	12.7	1,296.7	223.6	8.9
Non-ferrous metals	Thous. met. tons	28	13.9	1.5	159	57.3		77	65.7	3.2	42.0	50.0	2.0
Fabricated metal prods. <sup>a</sup>		..	..	..	..	22.2		..	60.6	3.0	..	66.4	2.7
Toys		..	8.4	0.9	16	12.2		..	42.5	2.1	..	55.4	2.2
Machinery	Thous. gross tons	..	..	..	..	82.0		..	246.7	12.3	..	483.5	19.3
Vessels	Thous. gross tons	..	..	..	..	26.0		384	78.2	3.9	1,164.0	259.9	10.4

<sup>a</sup> Excluding machinery. .. Not available. Source: Ministry of Finance, Tokyo.

thirties. Exports of cotton yarn amounted to only 27 million pounds in 1956, compared with 53 million pounds in 1934-36. Cotton fabric exports totaled only 1,262 million square yards in 1956, against an annual average of 2,945 million square yards in 1934-36.<sup>19</sup>

This change in export markets and export patterns creates a problem for the Japanese, for, as was noted in chapter V, they are higher-cost producers in most categories of iron and steel, metal products, and machinery, in contrast with their advantageous cost position in textiles. The Japanese, of course, are well aware of this. The Ministry of Finance observed recently:

The decline in the importance of textile goods and the rise in that of heavy and chemical manufactures characterize the postwar commodity pattern of Japanese export trade. Such a change in Japanese trade patterns responds to the industrialization of underdeveloped countries in neighboring Asia, and indicates that in Japanese export trade emphasis is shifting from consumer goods which are to compete with products manufactured by underdeveloped countries to capital goods which are to contribute to the development of industries in these countries. It cannot be denied, despite considerable amount in investments for the purposes of industrial rationalization, that our capital goods are weak in export competition in the international markets, whereas textile manufactures are stronger in the competitive market. Therefore, in order to secure a stable market to meet the structural change in the world economy, even further efforts will be necessary.<sup>20</sup>

#### COSTS, CAPITAL, AND FOREIGN INVESTMENT

While the cost disadvantage in the heavy industries is due in part to the higher cost of raw materials because of the need to bring iron ore, coking coal, etc., long distances (see chapter V, Table V-8), it is due also to outmoded and inefficient machinery, excessive subcontracting,<sup>21</sup> and methods of production that are not up to date. Japan has recognized this and has attempted to do something about it, but is, to some extent, handicapped, despite a high rate of capital formation, by the shortage and high cost of capital. In the postwar decade Japanese industry has been dependent on external borrowed funds. Reliance on commercial banks has been especially heavy, proportionately 13 times as great as in the United States. Interest rates are high in Japan, as the following table shows:

COST OF FUNDS IN JAPAN  
(percent)

	INTEREST RATES ON LOANS AND DISCOUNTS (a)			AVERAGE YIELD OF	AVERAGE
	Loans on Deeds	Loans on Bills	Discounts	DEBEN- TURES (b)	DIVIDEND RATE (c)
1934-36 average	7.06	5.77	5.35	4.52	7.75
1946	10.22	10.00	10.15	12.33	12.18
1950	10.11	9.23	9.42	11.50	13.94
1951	10.48	9.09	9.34	11.40	21.38
1955 April	10.20	8.76	8.76	11.07	17.87
1955 December	10.22	8.40	8.40	9.50	16.74
1956 April	10.22	8.40	8.40	8.80	16.78
1956 August	9.86	8.03	7.67	8.17	16.53
1957 July	9.49	8.03	8.03	7.89	15.70

*Sources:* (a) Tokyo Bankers' Association, (b) "Securities White Paper," by Fujiwara and Kimura, (c) the Tokyo Stock Exchange.

Mortgage loans now cost between 9 and 10 percent in Japan. Corporate debentures yield 8 to 9 percent. Commercial bank lending rates for good risks are from 7.5 to 9 percent. Japanese government bonds yield 6 to 7 percent.

Under the circumstances it would seem logical for the Japanese to attempt to supplement their domestic capital resources by importing foreign capital. They have, however, been more successful in obtaining foreign technical assistance, both public and private, than they have in obtaining capital. The total volume of foreign capital invested in Japan from January 1, 1946 through March 31, 1957 was \$320 million. Of this amount, loans totaled \$269 million. The total number of technical assistance contracts concluded up to March 31, 1957 was 662. Of this number two-thirds were with United States firms. The capitalized value of the 662 agreements amounted to over \$400 million (see Table VII-11).

The Japanese have been disappointed by the results of their effort to encourage foreign capital investment in Japan. The basis of this disappointment may be seen by an examination of the figures for the fiscal years 1950-57. Japan paid back \$63 million on the \$320 million of the foreign capital investment and an additional \$84 million on the foreign technical assistance contracts. This total pay-

TABLE VII-11. FOREIGN CAPITAL INDUCTION, JAPAN, 1950-1956

(values in thousand dollars)

Fiscal Year	No. of Technological Assistance Contracts	Corporate Stock Acquisitions	Investments & Loan Trusts	Corporate Debentures	Straight Loans	Total
1950	27	3,150	—	—	—	3,150
1951	101	13,321	—	—	4,026	17,352
1952	133	10,123	146	25	34,457	44,751
1953	103	5,002	562	—	49,362	54,926
1954	82	3,970	58	—	15,279	19,307
1955	72	5,101	52	7	50,855	56,015
1956	144	9,520	115	15	114,947	124,597
Total	662	50,192	933	47	268,926	320,098

Source: *The Oriental Economist*, Tokyo, August 1957, p. 403.

ment of \$147 million compares with new foreign investment in Japan over the period of \$320 million plus the technical assistance contracts (see Table VII-12).

TABLE VII-12. FOREIGN EXCHANGE REMITTANCES UNDER THE FOREIGN INVESTMENT LAW, JAPAN, 1950-1956

(thousand dollars)

Fiscal Year	Technological Assistance Royalties	Stock Dividends	Interest	Stock Investments, Reparations	Trust Principal and Interest	Debentures, Principal and Interest	Straight Loans, Principal	Total
1950	501	0	0	0	0	0	0	501
1951	4,842	734	23	0	0	0	0	5,599
1952	8,156	1,860	138	0	0	0	700	10,854
1953	11,467	2,900	622	0	7	1	2,942	17,939
1954	13,011	3,761	1,151	275	14	2	4,970	23,184
1955	17,963	4,027	1,175	454	20	2	7,125	30,766
1956	28,417	5,141	2,762	599	24	0	21,419	58,362
Total	84,357	18,423	5,874	1,328	65	5	37,156	147,205

Source: Ministry of Finance, Tokyo.

The chief obstacle to more extensive foreign capital investment in Japan seems to be the provision in the Japanese Foreign Investment Law permitting the repatriation of equity capital only over a seven-year period. There is an initial waiting period of two years, after which one-fifth of the capital may be repatriated each year.<sup>22</sup> Foreign investors are reluctant to submit to such conditions, especially when there are more attractive and less restricted opportunities available elsewhere (as in Canada, for example). On the other hand the Japanese contend that their foreign exchange reserves are not adequate to permit a sudden large drain, such as they fear might occur on some occasion if they permitted unrestricted withdrawal of foreign capital. They point to the experience with foreign exchange reserves in 1953 and again during the first half of 1957. In the latter instance foreign exchange reserves, which exceeded \$1.5 billion at the end of 1956, had by mid-1957 dipped below \$1.0 billion. Deducting \$270 million owed Japan by Indonesia and Korea, and \$390 million held for monetary purposes by the Bank of Japan, available foreign exchange was reduced to \$320 million by mid-1957, according to the Ministry of Finance.

Apart from foreign technical assistance and foreign private capital, a variety of other measures, including loans from the International Bank for Reconstruction and Development<sup>23</sup> and the U.S. Export-Import Bank, and loans made to the Japanese government under the U.S. program of disposal of agricultural surpluses, have been utilized in an effort to modernize plant and equipment. Japan, however, with its high rate of capital formation and strong propensity to save, has also been plowing back business profits for renewal and expansion of facilities. How successful the effort will be remains to be seen, but in such sectors as shipbuilding, iron and steel, and chemicals, real progress is apparent.

#### COMMERCIAL POLICY

In the early postwar years all foreign trade was conducted on a government-to-government basis. The restoration of foreign trade to private enterprise was made gradually, and by early 1950 may be said to have been complete. Thus the very rapid expansion of Japanese foreign trade in the 1950's was largely the work of private traders. In anticipation of the transfer of trade to private enterprise, the Foreign Exchange and Foreign Trade Control Law (No. 228)



was passed on December 1, 1949, providing for exchange control, import licensing, and export control.<sup>24</sup> The necessity of such controls in view of Japan's continued imbalance of trade is seldom argued. In 1951 Japan revised its tariff schedule to eliminate obsolete and unrealistic prewar rates.

The current level of the Japanese tariff is considered moderately protective. Rates on an ad valorem basis range from 15 to 50 percent. As a result of Japan's accession to the General Agreement on Tariffs and Trade (GATT) in 1955 and the multilateral tariff negotiations under it, some Japanese rates have been revised downward on a reciprocal basis. Japan's accession to GATT was an important step in its re-entry into normal world trading relationships, since it carried with it assurances of most-favored-nation treatment. The advantage was somewhat limited, however, by the fact that fourteen countries, including the United Kingdom, Australia, New Zealand, the Union of South Africa, India, Benelux, France, and Brazil invoked Article 35 of the GATT agreement, under which a contracting party can escape from the application of the General Agreement between itself and another contracting party.

Except for most dollar area countries, however, Japan's main markets and sources of supply are covered by bilateral trade agreements.<sup>25</sup> As of June 1956 there were 26 of these. More than half provided for open account arrangements. There has been some evidence that this bilateralism, which was useful at first in helping Japan re-enter world markets, has tended in recent years to restrict rather than foster trade. Aware of this criticism, Japan moved during 1956 to liberalize its trade practices. Since the end of 1955 open account arrangements with five nations have been abolished and further moves in this direction are contemplated. Of this development the London *Financial Times* declared:

It is evident that Japan, after refusing for a long time to participate in the world-wide movement away from bilateral trade and payments practices, has now taken the first steps toward the reorganization of her external economic affairs on a multilateral basis.

This is the significance of recent Japanese moves to recast payments agreements with the so-called "open account" countries to provide for cash settlements. "Open account" countries for the purpose of Japanese exchange control arrangements are those falling outside the sterling and

dollar areas. So far as the sterling and dollar areas are concerned, Japan has been prepared to agree for some time now that her bilateral scruples could be satisfied by arranging her trade and payments relations with countries in these regions in such a way as to achieve a broad balance with each of the areas as a whole. But in the case of other countries she has tended to insist that the aim should be to maintain payments in equilibrium with each individual state.

To this end, the Japanese authorities have periodically negotiated trade agreements providing for a flow of trade of approximately the same order in each direction with each of the countries. And as an additional precaution, they have required all payments arising from transactions with these countries to be channelled through "open" or clearing accounts, the intention being to ensure that Japanese purchases from these countries were paid for in a form of foreign exchange that could be utilized only for financing spending within Japan itself.

Japan still appears anxious to arrange her trade with non-sterling and non-dollar countries in such a way that no major disequilibrium develops in her transactions with any one of them. But, as existing financial agreements with open account countries fall due for renewal, she is consenting to the replacement of the clearing account method of payment by one which provides for cash settlement in some mutually acceptable medium of exchange. This will ensure that if, for any reason, Japanese imports from another country cannot be kept in equilibrium with exports to that country, the difference will be settled in a form of foreign exchange that can be utilized for financing payments transactions with other countries.

To the extent, therefore, that the bilateral intention underlying most of her trade agreements cannot be realized, Japan will be operating in some measure on a multilateral payments system during the period ahead. And it seems quite likely that Japan will subsequently be found less disposed to press for a bilateral balance in her trade agreements. Thus, the policy departure that Tokyo has recently made could lead to the establishment of the country's external economic arrangements on a fully multilateral basis in the space of a year or two.

It would be as well to recognize in this connection, however, that the speed at which Japan can move away from the bilateral principle in trade relations with other countries may not be determined solely by the ability of her external payments to stand the resulting additional strain. For it seems that, in some instances at least, adherence to bilateral practices is due as much to the wishes of Japan's trading partners as to those of her own Government. Thus, for internal political considerations or similar reasons, some countries are not at present prepared to grant

more than very limited access to their markets to Japanese traders. This often means that Japan's exports to such countries have to be restricted to about the same amount as her purchases from them. In other words, plans for developing Japanese trade as a whole by building up exports to some countries to the point of creating payments surpluses that can be utilized for expanding imports elsewhere are difficult to put into effect.<sup>26</sup>

The increases in import quotas, the multilateral negotiations at GATT meetings, the gradual liberalization of policy as regards the foreign exchange markets,<sup>27</sup> and permission for foreign exchange holdings by private companies were all steps in the direction of a less restrictive trade policy, from which Japan hoped to obtain mutual advantage.<sup>28</sup>

The exchange crisis which developed in 1957, however, set back this effort. The expansion of exports failed to keep pace with the rapid increase in imports, and the resultant sharp decline in Japan's foreign exchange holdings necessitated the reimposition of a number of restrictions on imports. The purpose of these was to tighten the belt around Japan's swelling imports, to conserve foreign exchange for the importation of raw materials that can be processed for re-export, and to shut off the increasing flow of so-called luxury items for domestic consumption.

Broadly, however, Japan is still attempting to widen its trading relationships in an effort to diversify both export products and export markets. In the words of a former Japanese Ambassador to the United States: "This will help to stabilize Japan's export trade by avoiding undue dependence upon a particular market. It will also help to disperse the effect of export trade increases that must be realized if Japan is to remain solvent."

#### SHIPPING AND SHIPBUILDING

In pursuit of its ultimate objective of balancing its payments at new and higher levels, Japan has not overlooked the field of shipping. Before World War II the sale of shipping services and exports of ships provided Japan with an important source of foreign exchange. By 1940 the Japanese merchant fleet totaled 6.1 million tons and Japan carried 68 percent of its imports and 75 percent of its exports in its own vessels. The wartime destruction of the merchant fleet reduced Japanese carrying capacity to a little more than a million tons, and as a result, as late as 1950, Japan was able to carry

only 25 percent of its imports and 15 percent of its exports in its own ships. During the next six years the merchant fleet was expanded to 4.3 million tons, and by the end of 1956 Japan carried over 50 percent of its imports and 44 percent of its exports in its own vessels.<sup>29</sup> However, since its expenses for ocean transportation are still double its income from ocean transportation, Japan has a good distance to go in restoring its shipping services. In 1956, for example, Japan spent \$234 million for marine freight but earned only \$117 million.

The task should not be difficult, however, since shipbuilding is now among the most vigorous of Japanese industries. From seventh place among world shipbuilding nations in 1954 Japan moved to first place in 1956 and 1957, even exceeding Great Britain in the launching and exporting of ships.<sup>30</sup> According to Lloyd's Register of Shipping, Japan's construction of ships (steel vessels of 100 gross tons and over) rose from 377,000 gross tons in 1954 to 1,480,000 in 1956 and to 2,424,000 in 1957. Under the circumstances it should not take Japan long to reconstruct its merchant marine.

#### HOW MUCH MORE TRADE DOES JAPAN NEED?

The question of Japan's future economic viability is essentially a problem of foreign trade. One approach was suggested at the beginning of this chapter: finding the volume of exports needed to pay for imports adequate for a level of industrial output that could absorb all prospective additions to the labor force. As we have seen, this would require additional exports of some \$2.5 billion (in 1955 prices) by 1965, on the assumption that \$5 billion of imports will be needed by that time. If, however, the import component of Japan's gross national product can be reduced to less than the present 13 percent, then a smaller volume of both imports and exports will be sufficient. By the greater development of plastics and synthetic fibers and indigenous fuels such as hydro-electric power, it may be possible to reduce the import component and thus reduce somewhat the need to expand exports. It is also possible to put aside the goal of full employment and to economize in some sectors of imports, such as sugar, wool, etc. All these measures combined might make it possible to hold the amount of exports needed to \$4 billion. This would be only \$1.5 billion above the present level.

In the nine-year period 1948-56 inclusive, world exports rose from \$52.7 billion to \$91.9 billion, a gain of 72 percent. If we as-

sume a similar gain over the next nine years, 1957-65 inclusive, the volume of world exports should reach \$156.5 billion by 1965. If Japan does no better than maintain its 1956 share of world exports—2.7 percent—its export volume in 1965 would be \$4.2 billion. If Japan were to regain its prewar share of world exports—5 percent—then its export volume in 1965 would be \$7.8 billion. If we make a more reasonable assumption, namely, that Japan's share of world trade rises by 1965 to a modest 3.5 percent, then Japanese exports in 1965 will amount to \$5.4 billion. Thus a realistic range of the probable level of Japanese exports by 1965 is between \$4.2 and \$5.4 billion, on the assumption that total world trade continues to expand over the next nine years as it has over the past nine. Within the context, then, of expanding world trade Japan can achieve and maintain a viable economy.

## VIII

# Japan and the United States

KASEGU NI OITSUKU BIMBO NASHI

There is no poverty that can overtake diligence

QUITE apart from political, military, or strategic considerations, the United States is of very great importance to Japan on economic grounds alone, even more so than before the war. It is Japan's principal customer and its main source of supply. In 1956 the United States furnished 33 percent of Japan's imports and took 22 percent of its exports.<sup>1</sup> Yet trade relations with the United States present a major problem to Japan, for since the war Japanese imports from the United States have exceeded exports by a wide margin. Only American aid and "special procurement" expenditures have enabled Japan to bridge the gap. How long can Japan continue to buy twice as much from us as it sells to us?

TABLE VIII-1. JAPAN'S SHARE OF U.S. TRADE, 1926-30, 1931-35, 1946, 1950, 1954-1956

(percent of total)

	Av. 1926-30 <sup>c</sup>	Av. 1931-35 <sup>c</sup>	1946	1950	1954	1955	1956
Exports <sup>ab</sup>	5.2	8.4	1.0	4.1	5.6	4.7	5.1
Imports <sup>ab</sup>	9.4	6.7	1.6	2.1	2.7	3.8	4.5

<sup>a</sup> Figures include re-exports and reimports.

<sup>b</sup> Data exclude, from July 1, 1950 on, items of strategic significance reported under "special category" exports in U.S. trade data without breakdown by country of destination.

<sup>c</sup> Figures for 1926 to 1935 include trade with Formosa and Korea.

Source: U.S. Department of Commerce.

While the United States plays the dominant role in Japan's foreign trade, Japan does not have a major role in United States trade (see Table VIII-1). American trade with Japan, both exports and imports, increased sharply in 1956 (see Table VIII-2), yet in that year Japan took only 5.1 percent of total United States exports—a smaller share than during the early 1930's, when a trade and armaments boom in Japan coincided with depression elsewhere. In 1956 Japan supplied 4.5 percent of U.S. imports, a slightly smaller proportion than in the lean years of 1931-35. Yet percentages, like

TABLE VIII-2. U.S. TRADE WITH JAPAN, 1946-1956

(million dollars)

Year	Exports Incl. Re-exports <sup>a</sup>	General Imports <sup>a</sup>	Balance
1946	101.9	83.4	+ 18.5
1947	60.1	35.4	+ 24.7
1948	324.7	62.7	+262.0
1949	467.5	82.0	+385.5
1950	416.4	182.1	+234.3
1951	597.7	204.9	+392.8
1952	621.7	229.3	+392.4
1953	670.5	261.5	+409.0
1954	679.9	279.0	+400.9
1955	647.8	431.9	+215.9
1956	889.9	557.7	+332.2

<sup>a</sup> Data for Nansei and Nampo Islands are included prior to 1954.

*Note:* U.S. Department of Commerce statistics on United States trade with Japan differ materially from Japanese Ministry of Finance customs statistics for a number of reasons. The time factor is important. Goods exported from the United States may not reach Japan and be recorded as imports for two or three months. United States exports to Japan are quoted FOB, while, in Japanese statistics, imports from the United States are quoted CIF and include the cost of shipping to Japan. For some commodities, such as coal, the shipping cost is greater than the commodity cost. The following figures illustrate the differences (million dollars):

	1954	1955	1956
United States exports to Japan (United States figures)	679.9	647.8	889.9
Japanese imports from United States (Japanese figures)	846.9	777.2	1,064.5
United States imports from Japan (United States figures)	279.0	431.9	557.7
Japanese exports to United States (Japanese figures)	276.8	449.2	543.3

*Source:* U.S. Department of Commerce.

averages, often conceal more than they reveal, for Japan is the best single customer for American cotton, wheat, rice, and soybeans.

In 1956 Japan earned from exports to the United States only 51 percent as much as it spent in the United States. In 1955 the comparable figure was 58 percent.<sup>2</sup> In prewar years Japan was often able to balance its accounts with the United States by sales of raw silk and shipping services. At present, because of the development of nylon and other synthetics, American silk imports are only a small fraction of their prewar volume. Moreover, in prewar years a triangular trade developed whereby Japan bought raw cotton in the United States and sold finished textiles to other areas (chiefly Asian countries), which in turn sold various raw materials to the United States. Thus, even when Japan showed a deficit in its trade with the United States, as was the case every year after 1931, its exports to the rest of the world yielded, through currency conversion, many of the dollars with which to pay for imports from America.<sup>3</sup> But the convertibility of currencies upon which such multilateral trade once rested has long since largely vanished. Furthermore, the newly independent countries of Asia, by means of exchange control and other trade restrictions, reserve their dollar earnings for themselves. The large Indonesian balances owed to Japan, for example, are not only inconvertible but appear to be largely uncollectible.\*

The large deficits which Japan incurred during the postwar period in its trade with the United States (\$570 million in 1954, \$323 million in 1955, \$521 million in 1956) would not have been possible had it not been for abnormal United States dollar outlays for aid, special procurement, etc. As noted in the previous chapter, the total Japanese trade deficit of \$6.0 billion in 1946-56 was covered by United States aid and special procurement expenditures of \$6.2 billion through 1956. These expenditures permitted Japan to buy twice as much from the United States as it sold to this country.<sup>4</sup> Special procurement alone constituted 26 percent of total foreign exchange receipts in 1950-56 (see Table VII-3).

Anticipating that these United States outlays may be gradually tapered off, the Japanese have been attempting to narrow the trade gap, both by shifting to other import sources and by increasing and diversifying their exports to the United States. In 1955 this policy

\* These were waived by Japan in the reparations agreement signed in 1958.



TABLE VIII-3. U.S. EXPORTS TO JAPAN, PRINCIPAL COMMODITIES, 1954-1956

(million dollars)

	1954	1955	1956
Exports, including re-exports <sup>a</sup>	680	648	890
Exports of U.S. merchandise, total <sup>a b</sup>	679	647	887
Foodstuffs	157	158	113
Grains and preparations	143	143	96
Rice, milled	49	42	1
Wheat	71	70	65
Soybeans, except canned	52	57	54
Raw cotton, except linters	174	120	179
Bituminous coal	25	24	32
Petroleum and products	24	29	38
Metals and manufactures	49	48	217
Iron and steel scrap	11	31	98
Iron and steel-mill products	4	5	37
Copper and copper base alloy semifabricated forms and scrap	26	2	49
Machinery and vehicles	84	73	84
Industrial machinery	57	47	50
Chemical and related products	36	46	70
All other U.S. merchandise	78	92	100

<sup>a</sup> Commodities classed as "special category" are excluded from the data for all periods.

<sup>b</sup> Commodity data are exports of U.S. merchandise.

Source: U.S. Department of Commerce, International Economic Analysis Division.

met with some success, owing in large part to two non-commercial factors: a bumper rice crop in Japan and the sale of American foodstuffs, under surplus disposal arrangements, for yen rather than for dollars. But in 1956, when Japan liberalized its import policy, the gap widened again. Total Japanese imports rose 30 percent in 1956, and imports from the United States rose 37 percent. Total Japanese exports increased by 24 percent in 1956, exports to the United States by 21 percent.<sup>5</sup> In 1957 the gap widened still further. Japan bought \$1.4 billion worth of goods from the United States and sold only \$636 million, thus incurring a deficit of \$794 million. A more detailed examination of Japanese-American trade may afford some

understanding of Japan's heavy dependence on the United States, and the reasons for it.

#### UNITED STATES EXPORTS TO JAPAN

Since a third of Japan's imports come from the United States, we might expect them to be broadly representative, in composition, of total Japanese imports—as, indeed, they are. Japan buys from the United States chiefly foodstuffs, raw cotton, coal, petroleum, machinery, and metal products (see Table VIII-3). Japan's billion-dollar shopping bill in the United States was distributed mainly over these items. Why, when they can sell us only half as much as they buy from us, do the Japanese continue to purchase such quantities of American goods? In the late forties and early fifties there were two reasons: greater availability of supplies and lower prices in the United States. Later, when world raw material prices receded and we lost some of our earlier price advantage, we resorted to surplus commodity disposal arrangements, quoting lower-than-market prices, permitting payment in yen, and even lending the yen for Japanese economic development. Cotton and wheat are the best examples.

In the case of cotton, in 1951, when the inflationary impact of the Korean War had raised world commodity prices, United States quotations were lower than others. By 1956, however, when other producers—Pakistan, Mexico, and Brazil—could compete on a price basis, as the following table reveals, the United States, in order to dispose of its cotton, arranged special disposal deals at concessions of 5 to 7 cents a pound.

COTTON PRICES OF MAJOR PRODUCERS  
(U.S. dollars per 100 lbs.)

	1951	1956
United States	41.6	33.9
Pakistan	64.1	26.3
Mexico	53.0	30.7
Brazil	58.6	35.8
Egypt, Ashmouni	71.6	45.9
Egypt, Karnak	95.8	64.0

*Source: International Financial Statistics, International Monetary Fund, Vol. X, No. 6, June 1957, p. 36.*

American cotton manufacturers have complained bitterly in recent years that the government has been selling cotton to Japanese manufacturers at prices up to 10 cents a pound less than those paid by American buyers. Moreover, a series of revolving credits from the United States Export-Import Bank, amounting to approximately \$60 million a year, has enabled Japan to buy American cotton on convenient payment terms.

In the case of foodstuffs, while American prices have generally been above those of major producers, as the table below indicates, shortages in the late forties and early fifties (especially in Asia, where populations were far larger than prewar but food output lagged behind until 1952-53),<sup>6</sup> enabled the United States to sell readily.

RICE AND WHEAT PRICES OF MAJOR PRODUCERS  
(U.S. dollars)

	1951	1956
Rice (100 pounds)		
Thailand	5.70	4.98
Burma	5.18	4.24
United States	9.80	8.30
Wheat (bushels)		
United States	2.40	2.22
Canada	{ International Wheat Agreement 1.80	1.76
	{ Other 2.18	
Australia	{ Commercial 2.17	1.47
	{ International Wheat Agreement 1.94	

Source: *International Financial Statistics*, International Monetary Fund, Vol. X, No. 6, June 1957, p. 39.

Beginning in 1954 the United States sought to dispose of surplus commodities abroad by agreement. The first United States-Japan sales agreement was signed on March 8, 1954 under Section 550 of the Mutual Security Act of 1951. It provided for sales of United States surpluses, primarily wheat, valued at \$50 million. The second, signed May 31, 1955, was under Public Law 480 (Agricultural Trade Development and Assistance Act of 1954), and provided for sales valued at \$85 million. The third, signed February 10,

1956, was also under Public Law 480 and provided for \$65.8 million of commodity sales.

In each case the yen sales proceeds were divided into two categories. The first, representing 75 percent of the total, was loaned to the Japanese for economic development purposes. The remaining 25 percent was spent in Japan by the United States for a variety of purposes.<sup>7</sup> Early in 1957 the Japanese announced that they had decided to stop the purchase of United States surplus farm products. Among the reasons given for this step were Japan's bumper harvests and a desire to purchase more wheat from Australia in order to open up that country's market to Japan's industrial products.<sup>8</sup> This step was in keeping with Japan's desire, where possible, to shift purchases from the dollar to the sterling area. Later in the year, however, there was a change of attitude, and Japan borrowed \$115 million from the U.S. Export-Import Bank to purchase agricultural commodities. These purchases will be paid for in dollars, however, and not in yen as would be the case under Public Law 480.

One of the consequences of lack of convertibility is that any surplus Japan realizes in its trade with the sterling area cannot be used to make up its dollar deficit. Japan has tended to buy more from the dollar area but sell more to the sterling area, and it is for this reason that it wishes to shift purchases to the sterling area.

Japan has been the best single foreign customer for American farm products. During the four-year period, 1952-55, it purchased agricultural commodities from the United States in excess of \$1.6 billion. Its closest competitors, as customers for United States farm products, were the United Kingdom, which took some \$1.3 billion; Canada, \$1.2 billion; and West Germany, \$1.0 billion. In 1956 Japan purchased \$179 million of raw cotton from the United States, one-third of its total cotton imports.<sup>9</sup> Every fourth bale of cotton exported from the United States goes to Japan. Over the five years 1952-56 Japan bought more than 4 million bales of cotton, more than the combined exports to our two next best customers, France and the United Kingdom. One-sixth of the wheat the United States exports goes to Japan, as does 40 percent of the rice we sell abroad, 29 percent of United States soybean exports, 30 percent of United States raw hide and skin shipments, 23 percent of barley exports, 20 percent of inedible tallow, and 20 percent of dry milk. Yet, except on a giveaway basis, the American farmer

cannot long hope to retain this important market, unless (a) world currency convertibility is restored, or (b) Japan is allowed to sell more in the United States than it has in the past.

#### JAPANESE EXPORTS TO THE UNITED STATES

From the tremendous outcry raised by United States textile producers, the average American could hardly help having the impression that Japan has been flooding the American market with hundreds of millions of dollars' worth of cotton textiles. Actually, in the postwar period, Japan has made a very real attempt to diversify its exports to the United States (see Table VIII-4). Its shipments of cotton textiles have been only 2 percent of total United States cotton textile production, and United States textile exports have far surpassed textile imports. In 1956 Japan's exports of cotton manufactures to the United States (including everything from cotton fibers to cotton dishrags, as well as apparel, especially blouses) amounted to only 15 percent (1955, 14 percent) of total Japanese exports to the United States.

Surprisingly, then, all the commotion involved \$60 million worth

TABLE VIII-4. U.S. IMPORTS FROM JAPAN, PRINCIPAL COMMODITIES, 1954-1956

(million dollars)

	1954	1955	1956
General imports, total	279	432	558
Imports for consumption, total	276	416	548
Foodstuffs	47	49	62
Fish, including shellfish	40	42	54
Textile fibers and manufactures	95	158	204
Raw silk	27	32	30
Cotton manufactures	23	60	84
Wool manufactures	8	17	31
Silk manufactures	18	24	30
Wood and paper	32	52	66
Plywood	17	28	34
China ware and earthenware	16	19	23
Metals and manufactures	19	45	71
Machinery and vehicles	10	16	24
All other imports for consumption	57	77	98

Source: U.S. Department of Commerce, International Economic Analysis Division.

TABLE VIII-5. U.S. IMPORTS FOR CONSUMPTION FROM JAPAN, 1952-1956

(million dollars)

	1952	1953	1954	1955	1956	1956 as % of 1952
Foodstuffs	28.7	44.2	47.0	48.9	61.7	214
Fish	23.1	37.4	40.4	42.5	54.1	235
Tuna	14	24	30	28	27	193
Crab meat	2.2	4.0	2.9	4.7	5	241
Animals & animal products, inedible	7.2	8.5	8.5	10.4	9.7	138
Vegetable products, inedible	5.8	5.4	5.8	6.5	7.1	120
Textile fibers & manufactures	80.9	81.9	95.4	158.3	203.7	252
Cotton manufactures	11.8	19.4	25.4	60.2	83.9	711
Cotton cloth	0.3	5.1	9.0	19.1	30.4	8,746
Velvetens	0.5	1.0	2.5	5.2	5.6	1,202
Table damask & mfrs.	3.7	3.8	3.9	4.7	4.9	132
Cotton wearing apparel	0.6	1.4	3.3	20.9	33.6	5,354
Gloves	0.6	0.7	1.0	1.5	2.0	358
Shirts	—	0.05	1.0	2.8	6.4	
Outerwear (mostly blouses)	0.04	0.4	0.7	15.5	23.0	65,960
Cotton household articles	0.8	1.0	1.1	3.3	2.6	319
Floor coverings	3.9	4.7	4.0	4.4	3.1	80
Hand-hooked rugs	3.5	4.5	3.7	3.9	2.3	65
Jute burlap	0.4	0.2	3.0	4.1	2.3	650
Wool manufactures	5.2	5.7	7.5	16.9	30.5	588

Silk & manufactures	54.0	43.6	45.7	56.9	62.6	118
Raw silk	30.2	23.4	27.2	31.7	30.2	100
Silk manufactures	21.5	18.7	17.9	23.5	30.1	136
Silk scarves	n.s.s.	n.s.s.	4.9	8.5	8.5	
Synthetic fibers & mfrs.	1.7	2.8	3.7	6.2	6.9	416
Artificial flowers, fruits, etc.	3.5	4.4	4.6	5.4	6.2	177
Wood & paper	10.3	19.2	32.2	52.2	65.8	635
Plywood	1.1	6.8	16.6	27.5	34.0	3,091
Nonmetallic mineral products	18.1	19.6	23.1	30.7	42.2	233
Clay & clay products	12.1	13.3	16.3	20.3	26.8	223
Pearls & parts, not strung or set	3.3	3.8	4.3	6.2	7.9	238
Metals & manufactures	45.0	42.9	18.9	45.2	70.9	157
Steel-mill products	29.5	21.4	3.2	13.1	9.9	34
Machinery & vehicles	10.2	9.8	9.7	16.3	23.5	234
Sewing machines & parts	9.2	8.4	7.2	12.5	13.4	141
Chemicals & related products	2.9	4.4	2.5	3.1	3.9	133
Miscellaneous manufactures	17.0	23.5	32.6	43.6	58.7	347
Photographic goods	1.5	1.5	1.2	2.6	5.1	339
Scientific & professional instr.	4.4	4.6	4.6	6.4	7.6	184
Prism binoculars	2.9	2.8	2.7	4.5	4.8	160
Dolls, toys, & sporting goods	4.7	8.1	10.2	15.9	23.6	512
Total imports for consumption	226.5	259.7	276.1	415.7	547.5	241
Total general imports	229.3	261.5	278.9	431.9	557.7	243

n.s.s. = not shown separately.

Source: U.S. Department of Commerce, International Economic Analysis Division.

of imports in 1955 and \$84 million in 1956, out of total United States imports of \$11.4 billion in 1955 and \$12.7 billion in 1956—0.5 and 0.6 percent respectively. Clearly the cotton textile issue was magnified out of all proportion to the economic dimensions involved. As Table VIII-5 reveals, wool and silk manufactures shipped by Japan to the United States together exceeded cotton manufactures in 1956 and yet raised no outcry.

The marked diversification of Japan's exports is apparent from the wide variety of products shown in Table VIII-5. They include tuna fish and crab meat, cotton textiles, burlap, wool and silk products, ceramics, porcelains, pearls, toys, jewelry, sewing machines, chinaware, bicycles, cameras, optical goods, plywood, and many other articles. Furthermore the Japanese have wisely begun to aim for the United States quality market, realizing that this is a more lucrative and permanent market than that for cheap and shoddy goods.<sup>10</sup>

#### THE COTTON TEXTILE CONTROVERSY: PRO AND CON

The pain induced by Japanese textile imports is much like a needle prick. The intensity of the hurt is out of all proportion to the size of the puncture. Only a few segments of the American textile industry have felt the full and direct impact of Japanese shipments—makers of velveteens and gingham, and cotton blouses—but the rest of the industry, perhaps in anticipation, raised its voice in protest. And the chorus was swelled by organizations ranging from the Clothespin Manufacturers of America to the Tuna Fishermen's Wives Emergency Committee.

Broadly, the complaint against Japanese cotton shipments is that they constitute unfair competition. This view was tersely voiced by Representative Harrison of Virginia at a Congressional hearing:

Is it fair to say that that industry [cotton textiles], because it cannot meet existing competition, is inefficiently managed and cannot meet fair competition, when, as a matter of fact, the Japanese are allowed to buy American cotton cheaper than the American manufacturer can buy it, and he is taxed to make up the difference, and the Japanese have a factory built for them with American money, and that American competitor is taxed to pay that, and the American competitor has to pay a minimum wage of \$1 an hour and the Japanese pay about 17 cents an hour?<sup>11</sup>

Unfortunately, three particular sectors of the American cotton industry—ginghams, velveteens, and cotton blouses—were hit sud-



denly by a large volume of Japanese shipments in a short period. In 1952 cotton manufactures accounted for \$11.8 million or 5 percent of Japan's sales in the United States. In 1956 they amounted to \$83.9 million, or 15 percent of U.S. imports from Japan. Cotton cloth imports, which had amounted to only \$343,000 in 1952, rose to \$30,428,000 in 1956. Imports of velveteens rose tenfold between 1952 and 1956, from 624,000 square yards in 1952 to 6,898,000 in 1956. Imports of cotton blouses and shirts rose from less than \$100,000 in 1952 to \$29,439,000 in 1956.<sup>12</sup> In the case of cotton blouses, *Fortune* reported:

Typical was the much-publicized \$1 blouse incident. In 1954 the Japanese sold some 189,000 dozen cotton blouses and shirts to the United States. Then a handful of American importers awoke to the fact that Japanese blouses could be retailed for as little as \$1, underselling domestic makers by as much as \$2. The American importers made hurried trips to Japan with fresh American designs and precious dollars. In 1955 an estimated three million dozen blouses poured across the Pacific and United States manufacturers and labor leaders poured into Washington.<sup>13</sup>

In the case of velveteens, in an escape clause investigation, the United States Tariff Commission found that (a) sales of domestic plain-back velveteens dropped from 3.5 million square yards in 1953 to 1.5 million in 1955, while imports from Japan rose from 600,000 to 1.6 million square yards over the same period, and (b) sales of twill-backed velveteens produced in the United States dropped from 3.3 million square yards in 1953 to 2.7 million in 1955, while over the same period imports rose from 1.9 million to 7.0 million square yards.<sup>14</sup> Accordingly the Commission recommended a doubling of the duty under the escape clause, but President Eisenhower, on January 22, 1957, rejected the proposal on the ground that the Japanese had voluntarily agreed to restrict shipments to the United States. On January 29, 1957 the Tariff Commission discontinued its investigation of gingham imports.

In another escape clause investigation,<sup>15</sup> of cotton pillowcases, the Commission, by a 3-2 vote, found that "cotton pillowcases are *not* being imported into the United States in such increased quantities, either actual or relative, as to cause or threaten serious injury to the domestic industry producing like or directly competitive articles." This was a case largely involving Japan, as the following figures taken from the U.S. Tariff Commission's report<sup>16</sup> indicate:

## U.S. IMPORTS OF COTTON SHEETS AND PILLOWCASES, 1953-1955

	1953		1954		1955	
	Quantity (dozens)	Value (dollars)	Quantity (dozens)	Value (dollars)	Quantity (dozens)	Value (dollars)
Total, all countries	65,965	116,873	114,446	238,788	978,182	1,942,036
United Kingdom	26	298	1,200	5,048	820	10,323
Japan	65,875	114,865	110,168	231,453	977,171	1,928,292

A solution was reached when the Japanese imposed "voluntary" quotas on shipments of cotton textiles to the United States, despite the fact that in 1955—the year in which the outcry started—Japanese cotton textile exports to the United States amounted to only 1.8 percent of United States domestic consumption.

In December 1955, as a result of United States pressure, the Japanese Textile Export Council adopted quota ceilings of 150 million square yards of cotton fabrics and 2.5 million dozen cotton blouses to be exported to the United States in 1956. Both figures were below the level of exports to the United States in the latter half of 1955. Exports to the United States in 1956 totaled 143 million square yards of cotton cloth. Quotas were imposed on a wide range of textiles, as had been done in 1937. Similar restrictions were placed on sewing machines, canned and frozen tuna fish, plywood, and other products.

Early in 1957 the Japanese announced a cotton export control program providing for an overall annual quota ceiling of 235 million square yards on all types of cotton textile exports to the United States, effective January 1, 1957 for a five-year period subject to an annual review. Within this overall limit, subquotas were set as follows:<sup>17</sup>

	Million Square Yards
1. All types of cotton textiles	235
Cloth	113
Woven and knit apparel	83
Household and miscellaneous items	39
2. Cloth subgroup	113.0
Velveteens	2.5 <sup>a</sup>
Ginghams	35.0 <sup>a</sup>
All other fabrics	75.5

<sup>a</sup> Export limit for each of the first two years only.

The overall quota of 235 million square yards compares with Japan's actual exports to the U.S. of 270 million square yards in 1955 and 290 million square yards in 1956. The 1957-61 annual cotton cloth quota of 113 million square yards compares to the 1956 quota of 150 million square yards and actual imports from Japan in 1956 of 143 million square yards. The figures for velveteens and gingham represent 50 percent reductions from the 1956 quotas established by Japan. As the *Wall Street Journal* put it: "The 'voluntary' quotas by Japan culminate months-long efforts by United States officials to get the nation to restrict her cotton textile shipments here in many categories."<sup>18</sup>

A Japanese manufacturer's reaction was: "Japan has been shut out of the fishing grounds where there are plenty of fish and given more freedom in fishing grounds where there are few fish."

The bitterness of the Japanese over these "voluntary" quotas is apparent when they point to the fact that American cotton mills were operating at full capacity in 1956 while Japanese mills were partly idle, and that Japan buys twice as much raw cotton from the United States as it is permitted to sell cotton cloth to the United States.<sup>19</sup>

The *Oriental Economist* observed pointedly:

Japan buys from the U.S. double as much as it sells to that country as indicated by trade between the two countries in 1956 which registered Japanese imports at about \$1,000 million and exports at \$500 million. The United States is predominantly rich enough to fare well without restricting imports from other countries. If, therefore, the United States is really desirous of promoting world economy, she should be magnanimous enough to open her market wide for purchases from overseas in order to put an end to the world-wide dollar shortage. World economic prosperity is the key to world peace.<sup>20</sup>

In May 1956 the United States Tariff Commission reported to the United States Senate Finance Committee that imports "are not offering serious competition to most segments of the domestic textile industry." The Commission stated that "an exceedingly small part of the domestic consumption of cotton manufactures is supplied by imports, and Japan accounts for only a part of such imports." The Commission pointed out that:

(1) "The United States exports cotton manufactures to a far

greater extent than it imports them" and even exports some to Japan.

(2) Japanese exports to Canada, the largest market for United States textiles, rose from just under \$1 million in 1954 to \$4.6 million in 1955. But during the same period United States textile exports to Canada rose from \$56.1 million to \$61.4 million.

(3) At present the ratio of United States textile imports to textile exports is "very much lower" than it was before World War II, though this ratio has risen in the last few years.

(4) The United States textile export situation is very real evidence that "the competitive position of many segments of the domestic textile industry vis-a-vis foreign producers is relatively strong."

(5) "It is clear that textile manufacturers in Japan do not have an across-the-board competitive advantage over the United States."<sup>21</sup>

In reviewing American foreign economic policy in 1956, a special committee of the American Bankers Association declared:

Whatever the advantages or disadvantages of this particular instance of trade restrictions, the arrangement to control Japan's cotton-textile sales in this country by means of a quota points up an issue of significance for future trade policy. Domestic interests seeking protection from foreign competition appear to be directing their efforts more and more to securing relief by means of quotas rather than increases in tariff rates. Quotas, whether imposed unilaterally or by mutual agreement, are thought to interfere more with the efficient working of the international market mechanism than tariffs do. Moreover, quotas involve a greater degree of bureaucratic regulation and are more conducive to discrimination. The United States has argued against use of quantitative measures by other countries to restrict purchases of American goods. The increasing pressure for the use of quotas not only weakens this position but poses a fundamental question for the future of United States trade policy.<sup>22</sup>

The controversy over textiles, tariffs, and quotas should not, however, be allowed to obscure the very essential assistance which the United States has rendered Japan in helping to restore its position in world markets. In a Treaty of Friendship, Commerce, and Navigation, signed April 2, 1953, both countries affirmed their adherence to the principle of nondiscriminatory treatment of trade and ship-

ping. In 1955, largely at American insistence, Japan was admitted to membership in the General Agreement on Tariffs and Trade, and the United States not only negotiated tariff concessions with Japan but used its own tariff concessions to third countries to secure more favorable treatment for Japan. Two trade agreements, one in 1955 and the other in 1956, were concluded between the United States and Japan within the framework of GATT.<sup>23</sup> Although it is not generally realized, the U.S. Export-Import Bank has provided significant help to Japan. Its 24 loans to Japan amount to \$613 million. This compares with nine loans amounting to \$90 million which have been extended by the International Bank for Reconstruction and Development.

While the Japanese are not unaware of these favorable factors, they are concerned at the rising protectionist sentiment in the United States. The Foreign Trade White Paper declared:

We should not overlook the fact that the favorable trend on Japan's export to the U.S.A. has been supported by the tariff reduction made by the U.S.A. in 1956 as well as by the improvement of the quality of Japanese goods and the active demand for our merchandise influenced by the popularization of Japanese taste in that country, but, on the other hand, the restriction on our principal goods was more rigorous in 1956. . . .

At the end of 1956 the U.S. made an investigation to confirm the rumor of Japan's dumping export of canned tuna, and after three months' inquiry, it was proved a canard. As for Japanese plywood, the concerned parties in that country have a tendency to import restriction of Japanese plywood. This is clearly shown by the quantitative restriction bill on import of plywood which was submitted to U.S. Congress in March 1957. . . .

Japan largely depends on U.S.A. for the supply of various goods; the imports from the U.S.A. accounted for one-third of the whole import of Japan in 1955 and 1956. The increase of our import from the U.S.A. accounted for 40% of the whole 1956 import increase. In other words, the U.S.A. is the most important source of food and industrial materials to Japan.<sup>24</sup>

One paragraph in the report of the United States Trade Mission to Japan reads:

As one Japanese businessman put it in a discussion with the trade mission, "We Japanese do not now pray to the United States, 'Give us

this day our daily bread,' but 'Give us this day an opportunity to earn our livelihood.'" This spirit is one which should be welcome to the American people, and one which we should encourage.<sup>25</sup>

Generally speaking, except for textiles, tuna, and plywood, the United States has not discouraged Japan from seeking to increase its exports to the United States. With continued diversification of exports to America and with continued upgrading to aim at the quality market, there would appear to be considerable room for increased Japanese sales in the United States. Should protectionist sentiment here, however, reassert its former dominance, Japan would be driven to seek other sources of supply. The recently concluded trade agreement with Australia is a straw in the wind. It may enable Japan to sell a good deal more in Australia and, as a result, to switch some of its wheat purchases from the United States to Australia. The most serious consequence of excluding Japanese products from the American market would be to drive Japan to seek more extensive trade arrangements with Communist China.<sup>26</sup>

The arithmetic of the situation is very simple. Japan buys one billion dollars' worth of goods from us. It pays for half with the special procurement dollars we make available. The other half is paid for by the goods Japan sells us. If we cut the special procurement in half and, by increasing trade barriers, also cut Japan's sales to us in half, it will be able to earn only \$500 million and therefore to buy only \$500 million from us. The other \$500 million of goods it formerly obtained from us will have to be purchased elsewhere. Since they are essential, needed goods, Japan will seek to buy them from countries which will take its goods in exchange. In the absence of currency convertibility Japan's latent dollar shortage looms large.

Looking at the total picture of Japanese-American trade, one can only agree with the observation that: "It would be strange indeed if we should lose the friendship of 90 million Japanese and gain exclusive control of the domestic market for cotton dishrags."<sup>27</sup>

## IX

### Japan and Southeast Asia

The world should, instead of spending its money on arms, turn to building up underdeveloped countries so that the basic causes of misery and conflict could disappear. If one-tenth of the effort put into arming were applied to improvement it would change the face of the earth. There would be fresh hope for millions and millions.

—JAWAHARLAL NEHRU

NOT ONLY has the last decade seen a redirection of Japan's trade which has somewhat lessened the total importance of Asia in its trading pattern, but there is also an essential difference in the nature of Japan's Asian trade before and after the war. Before World War II, as Table IX-1 indicates, 58 percent of Japan's exports went to Asia and 52 percent of its imports came from this area.

TABLE IX-1. GEOGRAPHICAL DISTRIBUTION OF JAPAN'S FOREIGN TRADE, 1934-36, 1954-1956

(percent of total)

	JAPANESE EXPORTS				JAPANESE IMPORTS			
	Av. 1934-36	1954	1955	1956	Av. 1934-36	1954	1955	1956
United States	16	17	22	22	25	35	31	
China, Mainland	18	1	1	3	12	2	3	3
Korea & Taiwan	21	8	5	6	24	3	4	2
South & Southeast								
Asia	19	31	28	27	16	19	22	21
Europe	8	9	10	10	10	8	7	7
Others	18	34	34	32	13	33	33	34

Sources: Ministry of International Trade and Industry and Ministry of Finance, Tokyo.

TABLE IX-2. JAPAN'S EXPORTS TO ASIAN COUNTRIES, 1935, 1954-1956

	1935		1954		1955		1956 <sup>a</sup>	
	Value (thous. dol.)	% of Tot.	Value (thous. dol.)	% of Tot.	Value (thous. dol.)	% of Tot.	Value (thous. dol.)	% of Tot.
Total for Japan	944,532	100.0	1,629,339	100.0	2,010,600	100.0	2,500,656	100.0
Asia	595,579	63.1	796,812	48.9	842,944	41.9	1,022,179	40.9
Far East	393,763	41.7	196,778	12.8	184,232	9.2	271,241	10.8
Soviet Asia	7,480		38		1,563		669	
Korea	159,653		68,568		39,494		63,594	
China (mainland)	164,307		19,106		28,547		67,339	
Ryukyu Is.	—		43,137		50,800		61,781	
Formosa	62,323		65,929		63,838		77,858	
South & Southeast Asia	178,313	18.9	517,487	31.8	567,262	28.2	655,786	26.2
Hongkong	14,208		77,265		88,061		134,462	
French Asia	1,149		12,927		36,781		65,219	
Thailand	11,502		65,108		63,031		60,895	
Malaya	689		9,334		13,478		15,700	
Singapore	13,867		38,281		59,319		62,210	
Philippines	13,730		31,192		51,808		55,502	
British Borneo	156		496		1,047		1,021	
Indonesia	40,867		119,716		64,714		76,031	
Burma	—		45,604		38,294		36,270	
India	78,749		43,857		84,731		105,298	
Pakistan	—		56,001		43,997		17,675	
Ceylon	3,396		17,296		20,425		24,260	
Portuguese Asia	—		410		1,576		1,240	



Middle East	21,269	2.2	74,336	4.6	85,884	4.3	86,420	3.5
Iran	2,740		23,461		22,422		19,102	
Iraq	6,306		16,973		21,544		20,051	
Bahrain Is.	—		1,367		1,789		2,418	
Aden	3,772		9,301		9,615		8,023	
Saudi Arabia	—		2,775		6,589		8,145	
Kuwait	—		4,672		6,291		7,988	
Trucial & Qatar	1,306		1,175		1,988		2,785	
Oman	—		427		417		688	
Yemen	—		32		—		—	
Palestine	2,400		2,138		3,251		3,223	
Syria	3,588		3,764		6,951		5,257	
Lebanon	—		1,272		1,206		2,380	
Turkey	926		6,789		3,533		6,360	
Cyprus	231		220		288		—	
Europe	74,165	7.8	146,293	9.0	205,794	10.2	250,398	10.0
North America <sup>b</sup>	174,113	18.4	348,490	21.4	532,044	26.5	650,842	26.0
South America	20,959	2.2	158,159	9.7	148,703	7.4	134,092	5.4
Africa	52,434	5.6	138,492	8.5	205,581	10.2	392,504	15.7
Australia & Oceania	27,282	2.9	41,094	2.5	75,503	3.8	50,633	2.0

<sup>a</sup> Country figures do not add up to Asian totals because Afghanistan, Mongolia, and Nepal are not shown separately but are included in totals. The same is true for regional totals. Total exports to these countries amount to only 0.4 percent of grand total.

<sup>b</sup> Includes Central America.

Source: Ministry of Finance, Tokyo.

In 1956 only 36 percent of Japan's exports went to Asia and only 26 percent of its imports were derived from Asia. (The above figures exclude Middle Eastern countries.)

The larger part of Japan's prewar Asian trade was with the areas it dominated. It obtained rice and sugar from Formosa and Korea; raw cotton, salt, soybeans, coking coal, and iron ore from North China and Manchuria; timber, pulp, fish, and coal from Sakhalin and the Kuriles. In return Japan shipped consumer goods, principally textiles, some machinery and equipment, and railroad rolling stock.

By contrast, Japan's prewar trade with the colonial areas of South and Southeast Asia\* was relatively restricted by the fact that most of the countries of this area were colonies of Western powers. The Philippines traded mainly with the United States; the Dutch East Indies with Holland; Indochina with France; and India, Malaya, Burma, Ceylon, etc., with Great Britain. Japan's marginal trade with these areas was carried on only upon sufferance of the metropolitan powers. Japan bought rice, jute, rubber, cotton, tin, and petroleum and sold primarily cotton goods and other consumer items. The area was not a large importer of capital goods and when it did buy such goods it seldom bought them from Japan.

Recent years have witnessed a very marked change. Japan's trade with South and Southeast Asia has become considerably more important than its trade with former empire areas. Japan lost the favored position it once possessed in East Asia. Pakistan, India, Indonesia, etc., have become more important markets and sources of supply than China, Korea, and Formosa. On an overall basis, as Tables IX-2 and IX-3 reveal, South and Southeast Asia now absorb over a quarter of Japan's exports as compared with less than a fifth before the war. Japanese traders, largely cut off from the nearby mainland, until recently, have been zealous in cultivating this market.<sup>1</sup>

Within these totals, however, there have also been some very marked shifts. The structure of Japanese trade with South and

\* By South Asia is meant Afghanistan, Pakistan, India, Ceylon, and Nepal. Southeast Asia includes Burma, Indonesia, Thailand, Cambodia, Laos, Vietnam, the Philippines, British Borneo, Malaya, and Singapore. At times either of the terms "South Asia" or "Southeast Asia" has been used in a broad sense to include all the countries of both sectors.

Southeast Asia has changed. Textiles are becoming relatively less important than before the war, capital goods more significant. As the underdeveloped countries of South and Southeast Asia move to industrialize, the textile industry is usually the first to grow.<sup>2</sup> Consequently the demand for imported textiles diminishes. India and Pakistan are cases in point. In 1935, 80 percent of Japan's exports to India (including Pakistan) consisted of textiles.<sup>3</sup> In 1956, 71 percent of Japan's exports to India consisted of metal and metal products, principally iron and steel.<sup>4</sup>

Indeed, India has now become a leading competitor of Japan in textile exporting and there is some debate as to which country has the lowest production costs in textile manufacture. The following table indicates that Japan's competitive disadvantage from having to use imported raw materials is not offset by economies in processing and that even though India's position is distinctly better than Pakistan's, both are superior to Japan's.<sup>5</sup>

COTTON YARN: PRODUCTION COST OF JAPAN, INDIA, AND PAKISTAN  
(dollars per 400-lb. bale of 20 count yarn)

	Raw Cotton	Processing Cost	Total
Japan	170	30	200
India	130	33	136
Pakistan	118	60	178

*Source: Monthly Report of Japanese Cotton Spinning Industry, All-Japan Cotton Spinners' Association, No. 100, April 1955, p. 17.*

In terms, however, of labor productivity as measured by the average number of spindles handled by one worker, India's figure, 380, stands far below Japan's (1,600-2,400).<sup>6</sup>

In contrast with the decline in the demand for foreign textiles in South and Southeast Asia, there has been a sharp increase in the demand for capital goods. Most of the countries of the area obtained independence since 1945 (India, Pakistan, Ceylon, Burma, Nepal, Indonesia, Malaya, Cambodia, Laos, South Vietnam, and the Philippines) and a number promptly embarked upon ambitious development programs designed to raise living standards.<sup>7</sup> Such programs stimulated and enlarged the demand for foreign capital goods, since these countries were determined to industrialize but, of

TABLE IX-3. JAPAN'S IMPORTS FROM ASIAN COUNTRIES, 1935, 1954-1956

	1935		1954		1955		1956	
	Value (thous. dol.)	% of Tot.	Value (thous. dol.)	% of Tot.	Value (thous. dol.)	% of Tot.	Value (thous. dol.)	% of Tot.
Total for Japan	934,905	100.0	2,399,404	100.0	2,471,431	100.0	3,229,739	100.0
Asia	477,405	51.1	736,832	30.7	903,947	36.6	1,047,924	32.4
Far East	329,651	35.3	118,281	4.9	189,099	7.6	164,691	5.1
Soviet Asia	972		2,195		1,965		2,217	
Korea	138,820		8,101		9,539		11,122	
China (mainland)	100,092		40,771		80,778		83,648	
Ryukyu Is.	—		10,126		15,939		22,195	
Formosa	89,767		57,088		80,878		45,509	
South & Southeast Asia	146,518	15.7	459,330	19.1	554,677	22.4	662,660	20.4
Hongkong	810		3,960		6,169		18,682	
French Asia	4,289		15,356		5,506		13,553	
Thailand	1,559		69,170		63,447		35,115	
Malaya	8,141		56,460		92,822		108,295	
Singapore	11,613		7,356		16,367		30,370	
Philippines	6,842		67,318		88,953		116,758	
British Borneo	2,809		19,171		21,408		30,546	
Indonesia	22,338		60,173		81,156		91,451	
Burma	—		63,093		45,778		42,373	
India	87,323		51,561		77,286		103,414	
Pakistan	—		36,189		47,086		50,624	
Ceylon	794		2,639		2,747		3,255	
Portuguese Asia	—		6,884		5,952		18,224	

	1,321	0.1	155,343	6.5	157,695	6.4	220,095	6.8
Middle East								
Iran	208		21,449		22,000		17,061	
Iraq	539		603		5,709		12,506	
Bahrein Is.	—		50		1,001		—	
Aden	104		1,674		3,219		3,378	
Saudi Arabia	—		110,879		97,692		138,289	
Kuwait	—		10,797		16,427		40,581	
Trucial & Qatar	124		—		1,970		1,471	
Oman	—		1,352		899		—	
Yemen	—		1,060		1,178		406	
Palestine	1		522		2,266		1,301	
Syria	9		616		3,958		2,929	
Lebanon	—		405		104		1,123	
Turkey	296		5,809		1,100		1,050	
Cyprus	40		127		172		—	
Europe	100,349	10.7	192,838	8.0	174,997	7.1	231,489	7.2
North America <sup>b</sup>	248,621	26.6	1,102,383	46.0	1,021,078	41.3	1,433,500	44.4
South America	12,259	1.3	177,301	7.4	103,978	4.2	127,666	4.0
Africa	19,766	2.1	51,276	2.1	62,956	2.5	101,444	3.1
Australia & Oceania	71,116	7.6	138,545	5.8	204,358	8.3	287,617	8.9

<sup>a</sup> Country figures do not add up to Asian totals because Afghanistan, Mongolia, and Nepal are not shown separately, but are included in totals. The same is true for regional totals. Total imports from these countries amount to only 0.4 percent of the grand total.

<sup>b</sup> Includes Central America.

Source: Ministry of Finance, Tokyo.

course, lacked the capacity for machine-building essential to this process and therefore had to turn abroad for the necessary equipment. Capital goods imports into South and Southeast Asian countries are now running in excess of one billion dollars a year.

Before World War II most countries of South and Southeast Asia had an export surplus in their international balance of payments (see Table IX-4). The region's excess of imports in trade with Japan and Europe was covered by an excess of exports in trade with the United States. Thus, when currencies were convertible, Japan could use its earnings from trade with South and Southeast Asia to pay for imports from the dollar or sterling area. In the postwar period, however, not only was convertibility ended, but the region itself was confronted with a persistent excess of imports over exports. This resulted from a variety of factors, a very important one, of course, being the increased level of expenditures and the higher level of imports resulting from the new development programs. Of perhaps equal importance, however, was the fact that during the postwar years, except 1951, the ECAFE countries\* (excluding Japan) had a smaller share of total world exports than before the war (1938). Their share had fallen from 10.3 percent in 1938 to 6.4 percent in 1956. World exports in 1956, compared with 1950, rose by 68 percent, whereas those of ECAFE countries (excluding Japan) increased by only 9 percent. World exports in 1956 were 24 percent *higher* than in 1951, but those of the ECAFE countries (excluding Japan) were *lower* by 22 percent.<sup>8</sup>

Thus, since the war, the region has suffered recurrent imbalances in trade and payments. Even in trade with the United States, imports have tended to exceed exports. Because of its adverse trade with Europe and Japan as well as its large expenditures for development, the area has not been able to live within its means but has financed its deficits by drawing on sterling balances accumulated during the war, by loans from the International Bank, by grants and credits from the United States, and by more modest sums received through the Colombo Plan.

In the face of such conditions the Japanese, over the last decade,

\* Includes Burma, Cambodia, Ceylon, Taiwan, Hongkong, India, Indonesia, Laos, Malaya, Pakistan, Philippines, Thailand, and Vietnam. Excludes Communist China, Afghanistan, British Borneo, Korea, and Nepal, for which data were not available.

TABLE IX-4. POSITION OF ECAFE<sup>a</sup> COUNTRIES IN WORLD TRADE, 1938, 1949-1956  
(million dollars)

YEAR	I M P O R T S										BALANCE FOR	
	E X P O R T S					I M P O R T S					E C A F E C O U N T R I E S	
	World Total	ECAFE Countries Excl. Japan	Incl. Japan	ECAFE as % of World Total Excl. Japan	Incl. Japan	World Total	ECAFE Countries Excl. Japan	Incl. Japan	ECAFE as % of World Total Excl. Japan	Incl. Japan	Excl. Japan	Incl. Japan
1938	20,650	2,127	3,326	10.3	15.7	23,250	1,808	2,878	7.8	12.4	+ 319	+ 358
1949 <sup>b</sup>	53,900	4,272	4,782	7.9	8.9	58,800	5,671	6,576	9.6	11.2	-1,399	-1,794
1950	55,400	5,401	6,221	9.8	11.2	58,200	4,641	5,615	8.0	9.6	+ 760	+ 606
1951	75,000	7,718	9,073	10.3	12.1	80,250	6,940	8,984	8.6	11.2	+ 778	+ 89
1952	72,300	5,795	7,068	8.0	9.8	79,200	6,772	8,800	8.5	11.1	- 977	-1,732
1953	73,300	5,051	6,326	6.9	8.6	75,800	5,513	7,923	7.3	10.4	- 462	-1,597
1954	76,100	4,962	6,591	6.5	8.6	79,000	4,900	7,299	6.2	9.3	+ 62	- 708
1955	82,800	5,691	7,702	6.8	9.3	88,000	5,609	8,080	6.4	9.1	+ 82	- 378
1956	91,900	5,997	8,498	6.5	9.2	96,900	7,080	10,309	7.3	10.6	-1,083	-1,811

<sup>a</sup> U.N. Economic Commission for Asia and the Far East. Countries for which data are available include Burma, Cambodia, Ceylon, China (Taiwan), Hongkong, India, Indonesia, Japan, Laos, Malaya, Pakistan, Philippines, Thailand, and Vietnam.

<sup>b</sup> Excluding China (Taiwan).

Sources: *Economic Survey for Asia and the Far East*, ECAFE, 1957, and U.N. Worksheets on Direction of International Trade for 1956.

have made strenuous efforts to build their trade with South and Southeast Asia to compensate for the decline in trade with East Asia. The Japanese placed large hopes upon the expansion of their trade with South and Southeast Asia, and they generated an extravagant and unrealistic enthusiasm about the complementarity of the economies of Japan and this area. It was the old story of the Greater East Asia Co-prosperity Sphere all over again. In modern postwar dress, the argument ran that Japan needed the raw materials and resources of the region and would pay for them with exports of manufactured goods, which the region would need in ever larger quantities.<sup>9</sup> To a certain extent there has always been, and remains, a large element of firm fact in this view. But there are also certain limiting factors which have made the actual development of trade less spectacular than the Japanese had expected.

Japan found that some of the materials which it hoped to obtain from the area were either not available in sufficient quantities, or were priced higher than in dollar area sources, or both. Some commodities, such as Pakistan raw cotton<sup>10</sup> and Indian coking coal, were not forthcoming in adequate amounts because of the growing demand for them in the producing countries; others, like Indonesian oil, continued to flow mainly to western Europe, despite the end of colonial ties. On the other hand, those Japanese who had rubbed their hands in glee at the prospect of a billion-dollar capital goods market in South and Southeast Asia forgot, only to be quickly and ruefully reminded, that other major industrial countries, especially lower cost-producers of capital goods than Japan, would compete vigorously for the market. Japan's principal competitors in capital goods trade with the region turned out to be the United Kingdom, the United States, and West Germany, especially the latter in marginal situations. They supplied 53 percent, 32 percent, and 9 percent respectively of capital goods exports to the region, while Japan accounted for only 6 percent.<sup>11</sup>

The tendency of South and Southeast Asian imports to shift from textiles to capital goods has worked against Japan, since its cost disadvantage has been greater in the latter category. In trade with India, for example, where the changing nature of imports has been most noticeable, Japan's share of Indian imports fell from 9.9 percent in 1938 to 0.9 percent in 1948 and then rose to 4.4 percent in 1955, while West Germany's fell from 8.7 percent in 1938 to 0.3



percent in 1948 but rose to 8.1 percent in 1955. In Japan's trade with Pakistan, its exports of cotton fabrics fell from \$16.5 million in 1954 to \$2.3 million in 1956; its exports of textile machinery fell from \$22.7 million to \$1.7 million over the same period. On the other hand, its imports of raw cotton rose from \$24.6 million in 1954 to \$40.8 million in 1956.<sup>12</sup>

Japan's trade drive in South and Southeast Asia has also been handicapped by the region's heavy reliance on grants, loans, etc., necessitated by its unfavorable trade balance and expensive development programs. This has pushed the trade of the newly independent Asian states toward Western and especially former metropolitan countries, which were able to assist by long-term credits or grants. For example, in the case of India, Britain took 34.4 percent of India's exports in 1938 and 33 percent in 1954; its share of India's imports was 31 percent in 1938 and 25 percent in 1954. In the case of Burma, the British took 14 percent of Burma's exports in 1938 and only 6.4 percent in 1954, but 25 percent of Burma's imports were supplied by Britain in 1954 compared with 18 percent in 1938—an actual increase.<sup>13</sup> The Philippines sent 82.7 percent of its exports to the United States in 1938 and obtained 68.4 percent of its imports from that country. In the postwar period, 72.7 percent of Philippine exports went to the United States, which supplied 67.6 percent of its imports.

The shortage of foreign exchange in South and Southeast Asia in the postwar period led to the continuance of a multiplicity of trade and exchange controls, quotas, newly imposed tariff barriers designed to protect infant industries, bilateralism, lack of convertibility, etc. All these restraints on trade not only restricted Japanese exports to the area, but meant that the prewar surpluses of foreign exchange which Japan formerly earned and used to buy dollar goods were no longer available for this purpose. The persistent foreign exchange shortages of Asian countries led to a tendency to restrict non-essential imports in order to conserve foreign exchange for priority items.<sup>14</sup> This means a curtailment of consumer goods imports in favor of capital goods. Thus Japan's ability to sell its low-cost consumer manufactures in South and Southeast Asia was reduced by the shortage of foreign exchange.

Japan suffers from the disadvantage of not being a member of any trading bloc or currency area. The difficulties which arise are well

illustrated in the case of Japan's trade with Indonesia. Japan's exports to Indonesia fell from \$123 million in 1954 to \$68 million in 1955<sup>15</sup> because Indonesia had been unable to pay off its previously accumulated debt to Japan either in goods or in foreign exchange. For 1956 Japan carefully balanced its trade with Indonesia, providing exports (\$75.7 million) just about sufficient to pay for what it could buy from Indonesia (\$77.7 million).<sup>16</sup> Thus trade is being balanced at a much lower level than would be the case if (a) currencies were convertible, (b) Indonesia were to sell more of its oil to Japan and less to metropolitan countries, (c) Indonesia's payments situation were improved.

Perhaps the overriding reason for the disappointing performance of South and Southeast Asia in absorbing Japanese exports is its very low purchasing power. Per capita incomes, while rising in recent years, are meager, even by Japanese standards. In time, development programs now under way will increase purchasing power, but this is likely to be a long, slow process, with inflation and growing population absorbing some of the gains.<sup>17</sup>

Until recently the reparations problem has been a further factor retarding trade development because of the inhibiting influence it had on what otherwise might have been a Japanese desire to extend credit or undertake long-range investments in certain countries in the area. However, agreements have been concluded with Burma, the Philippines, Thailand, and Indonesia and now only the Vietnam settlement remains to be arranged.

In an agreement concluded in November 1954, effective April 1955, Japan agreed to pay Burma \$200,000,000 in goods and services over a ten-year period, and in addition another \$50 million will be made available over ten years for joint enterprises. Thus the way was opened for extensive Japanese investment in Burma. Thailand is to receive \$41,666,666 in cash, goods, and services over a period of years. The Japan-Philippines reparations agreement, signed in May 1956 after years of sporadic negotiation following the original Philippine demand for \$8 billion of reparations, provides for payment by Japan to the Philippines of a total of \$550 million over 20 years—\$25 million annually during the first ten years and \$30 million annually over the remaining ten years. Reparations will consist principally of capital goods. In addition the Japanese government agreed to facilitate the offer of \$250 million in private loans

for Philippine economic development. The arrangement is that yen loans equivalent to \$250 million will be extended on a commercial basis by private Japanese firms and individuals to private Philippine interests.<sup>18</sup> Thus this settlement, like the others, serves to encourage Japanese investment in the economic development of Southeast Asia.

The Indonesians originally set a claim of \$17.3 billion for war damages. Not much progress was made for a long time, as so large a figure was an unrealistic basis for discussions. On December 8, 1957, however, after long negotiations, a reparations agreement was reached with Indonesia. It provided that: (1) Japan is to pay \$225,444,000 in goods and services as reparations to Indonesia in 12 annual installments. (2) Japan is to renounce its right to claim a \$175-million trade debt from Indonesia. (3) Japanese firms are to invest and advance commercial loans totaling \$400 million to Indonesia over a 20-year period. (4) The peace treaty between the two countries is to include a provision for mutual most-favored-nation treatment.

Increasing economic ties can be expected as a result of this settlement. An early manifestation of this was seen in the Indonesian call to the Japanese to supply ships for Indonesian inter-island trade and communications in late 1957 and early 1958, when the anti-Dutch campaign resulted in the withdrawal of a large number of Dutch-owned ships which had handled the bulk of inter-island commerce.

Total reparations settlements with Asian countries add up to a little more than \$1 billion in outright payments. Since the United States is not expected to remit more than two-thirds of the \$2 billion rehabilitation and occupation debt which Japan still owes, the financial burden resulting from World War II, perhaps amounting to more than \$1.5 billion dollars, will be felt in Japan for many years to come.

On the other hand the investment aspects of the reparations agreements, coupled with the small but growing flow of Japanese capital into other countries in the area, cannot fail to have a beneficial effect on trade relations between Japan and Southeast Asian countries. The need of these countries for capital is so great that far larger Japanese contributions than are now being made would be helpful.<sup>19</sup> A Japanese economist declared:

We have a calculation made by the United Nations group of experts on the rate of savings and the amount of capital needed for economic development in under-developed countries.<sup>20</sup> Although this calculation is rather general and idealistic, it gives us an idea of the relation between the rate of growth of output and the amount of capital needed. Taking the figures relevant to Asia from this calculation, we can form some idea of the scale and speed of economic development in Asia as a whole.

The total amount of domestic savings in 1949 in South Central Asia and the Far East (excluding Japan) was only \$1.9 billion, representing less than 4 percent of the total national income of \$50.4 billion. In order to raise the level of income by 2.5 percent per annum, the total amount of capital needed is estimated to be \$12.9 billion, partly for industrialization (\$10.9 billion) and partly for better agricultural production (\$2.0 billion). This amount of capital required represents more than six times as much as the capacity of domestic savings and in order to meet this requirement, an extremely large amount of capital must be imported from abroad (10.9 billion per annum).<sup>21</sup>

In most of the countries of South and Southeast Asia the rate of capital formation ranges between 5 and 10 percent. In contrast, in Japan, the rate in recent years has varied from 15 to 20 percent. The maintenance of a high rate of saving and capital formation in Japan, and a flow of Japanese capital to South and Southeast Asia, would therefore be mutually beneficial. There are encouraging signs that such a flow, although small at present, has already started. A Bank of Japan survey as of mid-1956 showed a total of \$30 million in overseas investment, of which some 33 percent or \$10 million was concentrated in Asia.<sup>22</sup> Of the \$10 million, \$7 million had been invested in mining enterprises in the Philippines and Malaya. Generally speaking, the investment takes three forms, joint enterprises, technical assistance contracts, and loans, with the first predominating.

A Japanese firm, Ishiwaro Sangyo, has provided 49 percent of the capital for a joint Indonesian-Japanese bank, the Indonesian National Rehabilitation Bank, capitalized at 50 million rupiah. Private Indonesian investors provided the other 51 percent.<sup>23</sup> In the case of the Cheang Para tin mines of Thailand, Japan has invested \$270,000 in cash, or 49 percent of a total capital of 11 million bahts, under an agreement which provides for payment to Japan of a 20 percent dividend and for long-term purchases by Japan of tin ore at 4 percent less than market prices. In South Vietnam a Japa-

nese firm, Nippon Koei Co., signed a contract to design and plan a hydroelectric power plant at Da Nhim, about 12 miles south of Dalat. In another category is an agreement between Japan and India whereby Japan supplies 75 locomotives to haul iron ore from Indian mines to ports and takes 2 million tons of the ore in payment. Japan has already become India's main supplier of railroad equipment, a field that used to be virtually a British monopoly. Taiyo Fisheries contracted with India to establish an Indo-Japanese fisheries company. The Kokan Kogyo Co., a Japanese mining firm, signed an eight-year contract with the Chowgule Co. of Portuguese Goa for the exploitation of the latter's iron mines there. The same Japanese company has a 21-year contract for mining iron ore in Kelantan State, Malaya. Asahi Glass arranged to complete construction of a half-finished glass plant in India and subsequently took over its operation. The company was capitalized at 7 million rupees (\$1,470,000), with Asahi holding 51 percent of the shares. The Kobe Steel Works provided 20 percent of the capital of the Indonesian General Mining Corporation formed to exploit the mineral resources of South Kalimantan (Borneo) and Halmahera in Indonesia. Kinoshita Shoten aided the Philippines Iron Mines, Inc. in the development of the Larap Mines.

The Overseas Construction Association of Japan, made up of 120 Japanese construction firms, handles projects such as railroads, housing, highways, schools, harbor facilities, hotels, etc. Japanese engineers completed a basic survey and design for a 20-mile-long subway in Bombay and are bidding for the entire project. Kobe Steel Works is scheduled to build a \$34 million fertilizer plant in Pakistan. Furukawa Electric Co. plans to set up an electric wire and cable company in the Communist-controlled state of Kerala in India. The Japanese will hold a 45 percent ownership and the Kerala government the rest.<sup>24</sup>

Much of the Japanese expansion abroad is aimed at digging up new sources of raw materials. The Japanese often offer their own equipment and technical assistance in exchange for a mining royalty and a long-term contract to purchase the mine's output. Mitsubishi Metal Mining Company, for example, recently negotiated a four-year contract with Atlas Mine Development Co. of the Philippines. Mitsubishi will supply \$2 million in cash and \$500,000 in machinery, enabling Atlas to double production of copper ore to

15,000 tons monthly, on which Japan will have first call up to 8,000 tons. Ore shipments will be credited against the loan, and to round out the deal Mitsubishi will sell finished copper wire to an Atlas subsidiary.<sup>25</sup>

Examples could be multiplied, particularly in the case of technical assistance.<sup>26</sup> Essentially, in this process, Japan is acting like a kind of transformer converting the high voltage of the West to the lower voltage of Asia. In small projects with less investment than would ordinarily interest an American firm, Japan is bringing capital and knowhow to the less developed countries of Asia. In early 1958 the Japanese established a \$15 million fund to grant long-term, low-interest loans in Southeast Asia. The fund is the fulfillment of Prime Minister Kishi's promise of aid to leaders of countries of the region. He had hoped for a larger project involving both U.S. and Japanese funds for his "Asian Plan," combining U.S. funds and Japanese technical assistance.

A particularly significant development was Japan's agreement with India in February 1958 to grant a \$50 million loan and the signing of a commercial treaty granting Japan most-favored-nation treatment for two years. The yen loan is repayable in seven years and is to be used by India for the purchase of Japanese capital equipment, including rolling stock, ships, and textile, mining, and hydroelectric equipment. The agreement also provides for the establishment of a Japanese technical aid unit to train Indians in pottery and light industries. India hopes to repay most of the loan with iron ore exports to Japan.

In forging stronger ties of trade and investment with South and Southeast Asia, the Japanese must pursue a wary course. There is still some suspicion and bitterness toward Japan in most of the area. If the Japanese appear to be flooding these countries with products or with too many offers of technical assistance, if they seem to be trying to move ahead too fast, fear of domination will develop and barriers will quickly rise. If, on the other hand, they fail to be resourceful, energetic, and quick to seize or develop an opportunity, the Chinese, Germans, Indians, or British can be expected to move in and Japan will lose out. There is, of course, as the Japanese perceived long before World War II, a complementary relation between Japanese industrial capacity and the rich resources of the southern regions, but if the Japanese are too obvious in exploiting it for their

own ends they are likely to develop a hostile reaction from now independent nations.

If the Japanese can obtain from South and Southeast Asia, at competitive prices, the resources which they formerly drew from empire areas and in more recent years from the United States—iron ore, coking coal, mica, and manganese from India; cotton and wheat from Pakistan; oil, tin, coal, asbestos, and bauxite from Indonesia; rice from Burma and Thailand; salt from Thailand and Cambodia, Laos and Vietnam; iron ore and copper from the Philippines; and iron ore and rubber from Malaya—they will have come a long way toward a balanced trade, since these areas can absorb Japanese machinery, electrical equipment, appliances, etc., in payment. From a long-range point of view this Asian trade is most important to the Japanese economy, and the Japanese government indicated its awareness of this when in its five-year plan (promulgated in December 1955) it stressed the importance of gradually changing over from the dollar area to South and Southeast Asia as the principal source of Japanese imports.

During 1957 a major Japanese "economic diplomacy" drive was started in South and Southeast Asia. The London *Financial Times* remarked:

The reparations agreement Japan has concluded with Burma and the Philippines as well as other indemnities paid for losses in World War II, have helped to erase Asian antagonism toward Japan and have eliminated some, though by no means all, of the lingering mistrust of the former enemy. Japan today feels the time is ripe for a more positive economic policy with regard to South East Asia. This bolder approach is one of the major policy planks of the new Kishi administration.

In concrete terms a number of moves are in progress or being planned to strengthen Japan's economic ties with South East Asia. The Foreign Office will bolster its diplomatic staff throughout Asia with young technical experts. These will advise the senior Japanese diplomat in each country on the drafting and implementation of economic cooperation schemes. The experts may also assist local industrialists and Government officials in planning economic development. The overall aim of this policy is to convince South East Asia that Japan is ready and able to help in developing it—and better suited than any other nation to do it.<sup>27</sup>

The countries of the area, however, reacting strongly against the old colonialism, feel, whether rightly or wrongly, that they have too

long had their resources "developed" for the benefit of other nations. They now want industrialization, not further expansion of purely extractive industries, and will tolerate the latter only insofar as it can be shown that this process will benefit them by, for example, greater earnings of foreign exchange with which to buy more foreign capital goods to advance industrial development. These countries cannot be approached in terms of the needs of Japan. They are, understandably, interested in their own needs. There is growing evidence that the Japanese realize this and are aware that their attitude must be one of fostering mutual assistance for mutual benefit.



# X

## Japan and the Communist Bloc

SHU NI MAJIWAREBA AKAKUNARU

He who mixes with vermilion becomes red

IN THE mid-thirties about 20 percent of Japan's imports came from Korea and Formosa, which were then Japanese colonies, and another 10 percent from China; about 25 percent of Japan's exports went to Korea and Formosa and 20 percent to China. Political and economic changes over the past 15 years have reduced Japan's trade with these areas to only 9 percent of its exports and 5 percent of its imports. After the Occupation ended, and the Japanese turned to explore avenues of expanding their trade, strong pressures from diverse sources developed to reopen the old China trade.

The "Peoples' Republic of China" was formed on October 1, 1949 and Japanese trade with Communist China was formally authorized by United States Occupation authorities on March 15, 1950. Although Japan was still under occupation, its trade with Communist China grew rapidly during 1950; exports reached \$19.6 million and imports amounted to \$39.6 million.

With the imposition, in December 1950, of restrictions on exports to Communist China, Japan's trade with China decreased sharply, as Table X-1 shows. The ban on exports of strategic materials to North Korea and Communist China adopted by the United Nations on May 18, 1951 led to a further decline. The drop was even more pronounced in 1952, after the passage by the United States Congress of the Battle Act.<sup>1</sup>

The present system of United States security controls over trade with the Communist bloc dates from March 1, 1948. An export licensing system was initiated at that time over all United States

TABLE X-1. POSITION OF CHINA IN JAPANESE FOREIGN TRADE, 1930-1956

(thousand dollars)

YEAR	JAPANESE EXPORTS			JAPANESE IMPORTS		
	Total	China	China as % of Total	Total	China	China as % of Total
1930	920,376	171,696	18.7	986,400	139,824	14.2
1931	720,288	108,108	15.0	820,308	115,224	14.0
1932	504,048	77,592	15.4	540,852	57,756	10.7
1933	600,600	105,504	17.6	628,788	72,168	11.5
1934	825,180	154,548	18.7	876,948	92,436	10.5
1935	935,544	165,096	17.6	932,952	100,572	10.8
1936	1,034,916	190,884	18.4	1,049,340	114,420	10.9
1937	1,199,304	277,808	19.9	1,363,740	126,072	9.2
1938	1,112,844	331,608	29.8	1,070,064	160,524	15.0
1939	1,330,500	453,600	34.1	1,070,196	177,312	16.6
1930-39 av.	918,360	198,644	21.6	933,959	115,631	12.4
1946	77,472	3,552	4.6	229,212	3,612	1.6
1947	173,568	10,164	5.9	523,548	5,016	1.0
1948	258,276	4,080	1.6	684,216	24,828	3.6
1949	509,700	3,144	0.6	904,836	21,756	2.4
1950	820,056	19,632	2.4	974,196	39,636	4.1
1951	1,357,713	5,828	0.4	2,047,892	21,606	1.1
1952	1,272,898	599	0.01	2,028,755	14,903	0.7
1953	1,274,843	4,539	0.3	2,409,637	29,700	1.2
1954	1,629,236	19,097	1.2	2,399,494	40,770	1.3
1955	2,010,599	28,547	1.4	2,471,430	80,778	3.2
1956	2,500,636	67,339	2.7	3,229,739	83,647	2.6

Note: Figures for 1946-48 include Formosa. 1946 covers the period from September 1945 to December 1946.

Sources: Figures up to 1950 are compiled from the data of the Ministry of International Trade and Industry; others from *Annual Return of Foreign Trade of Japan* and *Monthly Return of Foreign Trade of Japan*, Ministry of Finance, Tokyo.

exports to the Soviet bloc. This system is based on a series of extensive lists which distinguish among commodities on the basis of their strategic importance. In practice, no shipment of a commodity on any strategic list is authorized to the Soviet bloc. Licenses to export non-strategic goods to Communist countries in Europe are, however, commonly granted. This does not apply to Communist China or North Korea, with respect to which a complete export and import embargo is maintained.

As the Randall Commission noted, "it was obvious from the outset that the efforts of the industrialized nations of the free world to deny strategic goods to the Soviet bloc would be of little avail unless these efforts were well coordinated. Accordingly, in the fall of 1948 the United States initiated bilateral discussions with its major European allies which led to the establishment in January 1950 of an informal international organization, the so-called Consultative Group and its Coordinating Committee (COCOM) based in Paris."<sup>2</sup> The 15 countries now (1957) participating are the United States, Belgium, Canada, Denmark, France, West Germany, Italy, Japan, Luxembourg, the Netherlands, Norway, Portugal, the United Kingdom, Greece, and Turkey. The leverage of the Battle Act doubtless had an impact in persuading countries to adhere to COCOM decisions.

Simultaneously with Japan's accession to the Group in September 1952, a China Committee (CHINCOM) was also created to serve as a forum for discussion of security trade control problems relating to Communist China.

The complete embargo against Communist China was applied at the time of its intervention in the Korean War. The CHINCOM embargo list was much more extensive and stringent than the COCOM list. Beginning in the latter part of 1955 a number of participating countries in CHINCOM began to express restiveness over the extensive differential of controls toward Communist China.

The Strategic Trade Control report declares:

Some of the participating governments were under heavy and unremitting domestic pressure, both political and commercial, to seek alteration of the China control system. Certain businessmen and influential newspapers considered the controls anachronistic, meaningless, and hampering trade expansion with Communist China. Some countries

advocated that the China lists be brought into line with the controls applied against the European Soviet bloc. . . .

Those who favored a substantial easing of the China embargo argued that the Korean armistice had been signed; that the U.S.S.R. and other Eastern European Communist nations could purchase goods which were under embargo to Communist China; that those items could therefore be re-exported to Communist China despite the added transportation and other costs; and finally, that the effect of the embargo was to force Communist China into a greater economic dependence on the Soviet Union.<sup>3</sup>

The objections to the more extensive controls toward Communist China grew in volume in western Europe throughout 1955-56. Finally, in the spring of 1957, Great Britain announced that it would no longer respect the so-called "China differential," that is, it would no longer observe the CHINCOM list, but would conduct its trade with China on the basis of the less extensive COCOM list. Other countries quickly followed Britain's lead, as did Japan in July 1957, when it announced a list of 272 previously banned items whose shipment to Communist China would thereafter be permitted.

From about the time of the passage of the Battle Act, pressures in Japan began to mount and nostalgic pleas began to be heard for a revival of the old China trade. For example, the conservative, business-minded *Tokyo Journal of Finance and Commerce* declared:

On a large scale it would be well for the Government to take greater pains in trying to provide trade with the Soviets and the Chinese Reds. Japan, of course, is committed to full cooperation with the United States, and any action which would prove detrimental, directly to free nations, must be strictly avoided. But if business can be transacted without violating Japan's adherence to the United Nations effort, there is no reason why it should be rejected.<sup>4</sup>

The *Oriental Economist*, in an article entitled "Trade With Communists Desired," stated:

Since the outbreak of the Korean War, Japan, by way of cooperating with the United Nations, has been refraining from carrying on trade with Soviet Russia and Communist China. But up to June 1950, Japan had traded with these two Communist countries to an appreciable extent. . . . The suspension of trade with these areas compelled Japan to

import these materials from areas lying farther off and consequently at higher prices. This naturally led to a rise in the cost of products of our domestic industry. For this reason it is hoped that our trade may be resumed with Soviet Russia and Communist China, especially with the latter.<sup>5</sup>

Expressions of British opinion, at the time, indicated a desire to have Japan resume trade with Communist China as a means of avoiding increased trade rivalry between Japan and Britain in South and Southeast Asia.<sup>6</sup>

Since 1952 the Japanese yearning for the China trade has mounted, as is shown by headlines such as the following, taken from the *New York Times* over the last few years:

JAPAN STRIVES FOR CHINA TRADE

JAPAN IS PONDERING TIES WITH RED LANDS

JAPAN SEES HOPE OF RED TRADE RISE

United States Peiping Talks Expected to Bring Some  
Relaxation of Curbs on Exports to China

JAPAN SEES TRADE GAINS

Bids from Red China for Goods Bolster Estimates

EAST-WEST TRADE BID RISES; GEORGE URGES JAPAN OUTLET

Senator Would Open China Markets to Tokyo

TOKYO SEEKS MORE RED TRADE; WANTS STRATEGIC

BANS RELAXED

In March 1955 C. L. Sulzberger, reporting from Osaka on "The China Trade—As Seen Through Japanese Eyes," declared:

Japanese policy shows definite signs of becoming both more nationalist and more neutralist. In other words our influence is waning. . . . For Japan, with its immensely crowded territory, its straitened post-war economy and heavy reliance upon shrinking American aid, feels it must develop new markets. The nearest at hand is across the narrow seas in China.<sup>7</sup>

Writing in mid-1956, Tanzan Ishibashi, then Minister of International Trade and later Prime Minister for a brief period, urged an increase in trade with China, declaring that the "Japanese Government could hardly pursue a policy that ignored the demand from

many Japanese business men for restoration of the old economic relations with the Chinese mainland." In an article in *Nihon Keizai*, leading Japanese economic and financial daily, Ishibashi asserted that many Western nations including the United States were discriminating against Japanese trade and that these developments "have increasingly instigated Japanese public opinion in favor of more trade with Peiping and has placed the Japanese Government in an extremely difficult position."<sup>8</sup>

During early 1957 China intensified its propaganda campaign. Headlines read:

PEIPING TO PRESS TOKYO FOR TRADE

INTENSIFIED DRIVE TO WIN CONFIDENCE IS REPORTED  
READY TO BE STARTED

RED CHINA OFFERS FAVORS TO JAPAN

PEIPING TRADE BID IS TAKEN TO JAPAN

A Socialist Party delegation returning in April brought substantial commercial bait back with it. Peiping's proposals included:

Joint arrangements for meteorological, postal, and fishing operations.

A trade agreement replacing the present temporary non-official arrangement.

A long-term contract for Red China to export 1,000,000 to 4,000,000 tons of coal annually to Japan.

An offer to purchase fishing vessels from Japanese shipyards.

A plan for the importation of Japanese chemical-fiber fishing nets and the establishment of a factory in Red China to process these fibers.

A cooperative agreement for the development of Red China's iron-ore deposits on Hainan Island with Japanese technical assistance.

Partly to offset this pressure, Prime Minister Kishi toured South and Southeast Asia seeking trade and investment opportunities for Japan and then came to the United States in mid-1957, seeking, among other things, American approval for relaxing trade controls between Japan and China. Shortly after he returned to Tokyo, Japan

followed Britain's lead in reducing the list of embargoed products. Among the items removed from the embargo list were machinery and equipment, electric motors, wooden and steel ships, railway rolling stock, trucks and automobiles, rolled steel, special steels, dynamos, diamond-tipped tools, nonferrous metals, electrical and communications equipment, etc.

How traditional and how extensive has been Japan's trade with China? What are likely to be the dimensions of such trade in the near future—if present COCOM restrictions continue, or in their absence?

Foreign trade was of little significance to Japan until the late nineties, and the China trade did not assume any importance until almost a full decade after the Sino-Japanese War of 1894-95.<sup>9</sup> Then it was based on a semicolonial relationship that had to be enforced by Japan, at times with punitive measures, and was resisted with periodic regularity by the Chinese.

In the 1930's Japan's trade with China was even more strongly influenced by political and military factors. The decline of trade in the years immediately after 1930 (see Table X-1) was due in part to the boycott of Japanese goods in China Proper before and after the "Manchurian Incident" (1931). The trade expansion of the late thirties was due in large part to the expansion of Japanese exports to Manchuria, paid for by Japanese investment in the area, as well as to the occupation of North China starting in 1937. There was, therefore, nothing "normal" about trade relations between Japan and China in the 1930's, and the conclusions that are often drawn about the "importance" of China's trade to Japan and the natural complementary relationship between their economies, in the thirties, must be qualified in large measure by the fact that during this period Japanese tentacles were being fastened tightly about China's economy. The resulting trade was therefore neither normal nor typical.

What did Japan ship to China in the mid-thirties and what did it receive in return? Textiles accounted for 25.8 percent of total Japanese exports to China, machinery and tools represented 18 percent, food and beverages 12.8 percent, metals and metal products 12.4 percent. While the ratio between producer and consumer goods was almost half and half, it should be clearly noted that 70 to 80 percent of the machinery, equipment, and metal products went to foster

heavy industry development in Manchuria, while exports of these products to China Proper were insignificant.<sup>10</sup>

On the import side, Japan obtained the bulk of its soybeans, oilseeds, tung oil, bristles, coal, and pig iron from China. Soybeans (including bean cake) ranked first, amounting to 25 percent of Japan's total imports from China, followed by coal (10.9 percent) and oilseeds (9.1 percent). Imports from China in prewar days consisted mainly of agricultural, livestock, and mineral products. The soybeans, oilseeds, and coal came largely from Manchuria and North China, areas under Japanese control or domination.<sup>11</sup>

The greater significance of Manchuria than of China Proper in Japan's trade is evidenced by the fact that 70 percent of Manchuria's exports went to Japan and 45 percent of its imports were derived from Japan. In the case of China Proper the overall proportion was only about 15 percent. Manchuria accounted for only about 10 percent of the total area of China and had only 7 percent of China's total population, yet it generated 40 percent of aggregate Chinese exports.<sup>12</sup> Japan, as a capital exporter, *vis-à-vis* China, had an export surplus, and this was especially true of its trade with Manchuria. It was Japanese investment that enabled Manchuria to pay for imports from Japan, and as a puppet state in the yen bloc Manchuria was sealed off from international competition<sup>13</sup> and was allowed to buy only from Japan. Thus Sino-Japanese trade in the thirties was highly contrived, relationships were forced, and any conclusions drawn from this period as to the importance of the China trade to Japan have little validity today. All that can be said is that China was more useful to Japan as an export market than as a source of supply, for it furnished only one-tenth of Japan's import needs. And this export market was in good part the result of Japanese investment and of Japanese coercion.

But perhaps most important is the fact that conditions in China in the 1950's are so completely changed as to negate the relevance of any relationships in the 1930's. There has been a complete re-direction of Chinese trade. Approximately 60 to 70 percent of China's trade in the early 1950's was with the Soviet Union and members of its bloc, as compared with less than 1 percent in the 1930's. Imports of consumer goods have been cut drastically, purchases of capital goods and raw materials have been stepped up



sharply. To free themselves from the need for importing consumer goods, the Chinese have begun a vigorous expansion program in textiles and raw cotton output. An enormous industrialization program has been undertaken in China with profound effects on the structure of foreign trade.

A United Nations report declares:

A radical change also took place in the pattern of trade: capital goods imports began to predominate, while agricultural exports tended to decline in relative importance; furthermore trade gravitated increasingly, if not exclusively, to the Soviet Union and countries of eastern Europe, with a corresponding reduction in importance, or elimination, of trade with former trading partners, particularly the United States, the United Kingdom and Japan.<sup>14</sup>

Approximately 75 percent of China's imports are now obtained from the Soviet Union.

It is estimated that capital goods now account for two-thirds of China's imports. Since the United Nations had sponsored an embargo on exports of strategic goods to China more drastic than that in effect on shipments to the rest of the Soviet bloc, China had to obtain the bulk of its capital goods imports from the Soviet Union, possibly even obtaining some Western products trans-shipped through or re-exported by the U.S.S.R. and its satellites. The Communist regime in China has replaced private enterprise in foreign trade with state trading in the form of the Chinese National Import and Export Corporation.

To spur industrial expansion, investment in agriculture under the first five-year plan was held to a minimum and yet surpluses were drained from the agricultural sector to finance industrialization. This raises doubts as to the ability of Chinese agriculture to yield any surpluses to pay for imports as in the past. Furthermore, the large increases in output of coal and iron ore required to meet planned goals in steel production suggest that Chinese coal and iron ore resources will have to be utilized largely, if not entirely, at home. Thus it would appear that the Chinese, as a result of their new economic program, may have trouble in financing imports.<sup>15</sup>

These major changes, the restructuring of the Chinese economy, the drive for autarchy, the shift in imports, the changes in demand

intensities, the new parameters and new targets, all postulate very different Sino-Japanese trade relationships from those which prevailed in the thirties. The old benchmarks, contrived in a different setting, are gone and the evolving new relationships are likely to be very different.

The first great change in the postwar period was, of course, the enormous diminution in the total volume of trade between the two countries. The civil war in China, which lasted until late in 1949, reduced the level of trade to minor proportions, as did the wartime destruction inflicted on Japan, including the loss of its merchant fleet.

The trade expansion in 1950 which followed stabilization of the scene in China was checked by the imposition of the United Nations embargo on the shipment of many types of goods to China, as a result of its aggression in the Korean War. The low point was reached in 1952, when Japanese exports to China fell to a mere \$600,000 and represented less than 1 percent of Japan's total. In August 1952 an understanding was reached between Japan and the United States authorizing exports to China of four categories of goods: textile machinery, woolen and worsted yarn products, paper, and dyestuffs. Since then the effort of both Japan and China to expand their trade has had some effect. On January 30, 1953 the Japanese Ministry of International Trade and Industry announced the release of 93 commodities from the list of prohibited exports. Japanese vessels were allowed to enter Chinwangtao. Several private (non-governmental) Japanese trade missions were dispatched to China. On 14 occasions between the summer of 1952 and the autumn of 1954 the Japanese government announced the release of about 270 items from the contraband list. From November 1954 on export permits were granted for certain contraband items on a "special approval" basis.<sup>16</sup> As a result, by the end of 1955 trade had exceeded the 1950 level.

Because of various pressures, particularly from Japanese business groups desirous of expanding trade with China, a series of agreements were signed between Chinese trade officials and Japanese businessmen and Diet members.<sup>17</sup> During 1956, for example, 1,200 Japanese businessmen and politicians visited China in 60 delegations. The terms of the agreements and the extent to which they were implemented may be seen from the following table:

	First Agreement, June 1952 to October 1953	Second Agreement, October 1953 to December 1954	Third Agreement, May 1955 to May 1956 <sup>a</sup>
(thousand pounds sterling)			
Amount of trade agreed on (import and export)	60,000	60,000	60,000
Actual trade (import and export):			
Value	3,030	23,280	33,809
Percent of agreed figure	5.1	38.8	56.4
Actual Japanese exports:			
Value	—	8,157	11,019
Percent of agreed figure	—	27.2	36.7
Actual Japanese imports:			
Value	—	15,123	22,790
Percent of agreed figure	—	50.4	74.9

<sup>a</sup> This agreement was extended for another year, until May 1957, when it was allowed to expire and was not renewed.

*Source: Fuji Bank Bulletin, Tokyo, December 1956, p. 13, Table 6.*

While responsible business groups frowned on the agreements and the Japanese government took no official cognizance of them, partly because the list of products to be traded included embargoed products, much of the trade that developed could not have been carried on without the tacit consent of the government. A Japan-China Export Import Association was organized to foster trade and assist in carrying out the terms of the agreements. A Diet Members' League for Promotion of Japan-China Trade was also formed.

These agreements, and the extensive publicity and propaganda associated with them, were designed to and did exert pressure on the Japanese government to obtain a relaxation of restrictions on trade with China. To heighten the pressure, the agreements divided trade items into three categories. In the first category were placed those things which Japan wanted most and which, it was claimed, it could buy in China cheaper than from Western countries. This included coking coal and ores. Japan could secure these, however, only if it delivered machinery and equipment that were on the embargo list. Each new pact, as well as the one-year extension of the 1955-56 agreement, put more pressure on the Japanese government to press the United States to relax the embargoes.

The nature of this pressure may be seen from the following statement with its subtle distortions and inaccuracies:

Nevertheless there cannot be the slightest doubt that segregation of the China market has been a major factor contributing to such phenomena as the change, as against prewar, of Japan's pattern of trade, the delay in recovery of the prewar level of trade, the chronic dollar gap resulting from trade with the dollar area, the heavy dependence on United States military spending, and the high cost of production and high export prices resulting from handicaps encountered in raw materials supply. . . . It is obvious that without a steady and nearby source of such costly key industrial items as coal, iron ore, and salt, high prices for heavy and chemical industry products cannot be avoided.<sup>18</sup>

Thus Japan's noncompetitive prices in heavy goods and chemicals are ascribed entirely to the embargo on the China trade. The statement was accompanied by the following table:

DEPENDENCE ON THE UNITED STATES AND COMMUNIST CHINA FOR  
KEY RAW MATERIALS AND FOOD

	(percentages)				
	Av. 1934-36	1950	1951	1955	1956
<i>Iron ore</i>					
China	34.0	18.7	1.3	1.1	0.01
United States	—	—	33.6	10.5	12.8
<i>Coking coal</i>					
China	68.4	58.8	1.1	2.9	7.6
United States	—	13.9	70.9	85.5	81.1
<i>Salt</i>					
China	38.6	8.6	0.2	26.1	27.0
United States	—	2.8	10.6	4.9	3.3
<i>Soybeans</i>					
China	71.3	56.5	2.6	27.4	23.1
United States	—	43.4	93.7	56.9	74.7
<i>Rice</i>					
China	—	—		9.7	15.7
United States	—	—		21.4	3.1

Source: *The Oriental Economist*, from Ministry of Finance data.

In chapter V a variety of reasons for Japan's high cost structure were presented. The cost of imported raw materials was only one factor, and indeed a minor one, since only in the case of coking coal

did the higher cost of transportation from the United States than from China have a material effect. Most of Japan's iron ore now comes from Southeast Asia, and the costs of transporting ore from the Philippines and Malaya are almost as low as from China.

In contrast with the prewar situation only token shipments of iron ore and coking coal flowed from China to Japan in the early 1950's, in part because of China's need for these products to meet five-year plan targets and in part also because Japanese exports of nonferrous metals and steel sheets and plates, steel pipes, galvanized sheets, vessels, etc., were under embargo. The Communist policy of tying its sale of goods wanted by Japan to embargoed exports, which, of course, the Japanese, under COCOM and CHINCOM restrictions, could not ship, helped keep the level of trade low and was also responsible for the adverse balance against Japan.

Soybeans, oilseeds, rice, and salt have been the main items which China has been willing to send to Japan, while the Japanese have partially paid for such imports by shipments of rayon yarn, chemical fertilizers, cement, textiles, textile machinery, bicycles, etc.<sup>19</sup>

Apart from the embargo, however, there have been other basic reasons why Sino-Japanese trade has not flourished over the last decade and why it appears improbable that it will regain the prewar level in the foreseeable future. During the late forties, of course, the chaos in China and the difficulties in Japan attendant upon defeat and occupation operated to restrict trade. In the early 1950's the understandable reluctance of the Japanese government to guarantee the enforcement of the informal Japan-China trade agreements, and the methods by which the Chinese Communists carried on trade, were retarding factors. The fact that the Chinese engaged in state trading, while on the Japanese side there was severe competition among numerous small and inadequately financed trading firms, resulted in a disadvantageous trading position for Japan, with low export prices and relatively high import prices. As the prices of Chinese export goods were fixed by the government trading corporation on a "take-it-or-leave-it" basis, while the Japanese firms cut prices in desperate bids for the limited amount of trade, the terms of trade were usually unfavorable to Japan, which received low prices for its exports but had to pay relatively high prices for its imports.<sup>20</sup>

The most important limiting factor in trade between the two coun-

tries, however, is the probability that China does not have the means to pay for any large volume of imports from Japan. Traditionally China had paid for imports by shipping agricultural products. In the first five-year plan, however, agriculture, although given the heavy burden of virtually financing the huge industrialization effort by a siphoning-off process in which it was drained and squeezed, was allotted only a minimum investment.<sup>21</sup> To provide a surplus for financing industrialization, to feed the expanded urban factory population, and to meet the food requirements of an increasing total population, agriculture, forestry, and water conservation were allotted a mere 7.6 percent of total five-year-plan investment.

In September 1957 the *Oriental Economist*, explaining why the relaxation of trade controls on commercial intercourse with China was not likely greatly to increase Japan's trade, declared:

Thirdly, and this is not the least important, the economic reconstruction of China has not been smoothly progressing and she has not developed enough agricultural and mineral exports in order to afford a great deal of imports. . . .

China's purchasing power is short. China's main items for export are agricultural products. But the poor 1956 crops and the growing demand at home seem to have combined to reduce China's farm produce for export.<sup>22</sup>

Famines and food shortages have been recurring phenomena in China for centuries. There seems to have been no abatement of this condition, perhaps even an intensification under the Communist regime. A report from Hongkong in December 1956 stated:

Communist China is facing a food shortage that may reach famine dimensions before spring, according to the latest reports received here.

The severe rice ration cut in all cities, announced in Peiping two weeks ago, has just gone into effect. It further reduces the admittedly inadequate distribution of the basic food to China's 600,000,000 population.

The cut was attributed by Peiping mainly to food distribution failures under China's widely publicized Second Five-Year Plan. It was also laid to floods and other natural calamities earlier this year.

Last September Liu Shao-Chi, generally recognized as second in command of Communist China, cautioned the Government against taking the food problems lightly this winter. He warned bluntly that the task

of feeding the Chinese people could become as great as in the 1954 famine.

In 1954 millions of casualties resulted from the famine and flood damage. This year the flood damage in China was serious despite the control projects, and midyear reports disclosed large scale suffering.<sup>23</sup>

Another report in October 1957 said:<sup>24</sup>

RED CHINA FEARS FARM TROUBLES  
Peiping Reports Peasant Opposition and Shortages  
May Delay Harvests

Peasant resistance, famine, and starvation, which may plague Communist China over the next decade, make it questionable whether any sizable quantity of foodstuffs can be wrung from the Chinese economy for export to Japan. While the Communists' capacity for sacrificing 15 or 20 million people to starvation may enable them, from time to time, for political and strategic ends, to squeeze out marginal quantities of food for export, China's capacity to sustain a large and steady volume of agricultural exports is open to considerable doubt.

This doubt becomes even more grave with respect to industrial raw materials for export. The huge industrialization effort that is contemplated, the vast expansion of heavy industry that is now under way, suggest that any increases in raw material output that China can achieve may do no more than keep pace with domestic industrial expansion, if that. Lai Jo-yu, trade union leader, has given specific figures on China's economic objectives beyond 1957, the last year of the first five-year plan. By 1962, the end of the second five-year plan, China will attempt to produce approximately 14 million metric tons of steel, Lai indicated. By 1967, when the third five-year plan is scheduled to end, steel output would be about 28.5 million metric tons. China's steel production in 1955 was officially announced as 2.8 million tons.<sup>25</sup> The goal for 1957 was 4.2 million tons. Lai's data indicate that China expects to industrialize much more rapidly than did the Soviet Union before World War II. Where the Chinese plan to increase their steel production ten times during the next twelve years, the Soviet Union increased its steel production less than five times in the twelve years between 1928 and 1940.<sup>26</sup>

Of Communist China's second five-year plan, the United Nations Economic Commission for Asia and the Far East declared:

The outline for the second Five-Year Plan proposed a 50 percent increase in national income, through a rise of 100 percent in industrial (including handicraft) output and 35 percent in agricultural production, as compared with the lower rates of increase of 90.3 percent and 23.3 percent respectively under the first Five-Year Plan. . . .<sup>27</sup>

Possibly these goals will not be met, but in the attempt to achieve them it would appear that much of the iron ore and coking coal which Japan desires will be needed in China. It is possible to quantify this doubt as to China's (or indeed the entire Soviet bloc's) ability to pay for capital goods imports. A study by George Waldstein of the Soviet bloc's ability to export gave interesting results. He took the 17 leading Japanese imports for the years 1951 and 1953, and compared them with the Soviet bloc exports of the same products to the free world. These 17 key commodities accounted for almost 72 percent of total Japanese imports in 1953. He concluded that except for four commodities—coal, soybeans, timber, and oilseeds—the total volume of Communist bloc exports to Western countries of the items urgently needed by Japan was, in both 1951 and 1953, less than the import requirements of Japan alone.<sup>28</sup>

If we extend the analysis to the years 1954, 1955, and 1956, as shown in Table X-2, it is seen that for each of the three years coal, timber, and hides and skins were exported from the Communist bloc in sufficient total volume to cover Japan's import needs, while for 1955 pulp could have been covered as well. Thus in 1956, in the case of only 3 of the 17 commodities (coal, timber, and hides and skins) was the bloc exporting sufficient quantities to meet Japan's needs. These three commodities accounted for only 6 percent of Japan's total imports in 1956.<sup>29</sup> In the case of rice, cotton, wool, wheat, rubber, tin, sugar, barley, iron ore, crude oil, etc., the bloc seems to be incapable of meeting more than a small fraction of Japan's needs. Whether it could furnish all of Japan's coal requirements, or would wish to do so, is not clear. Poland, the major bloc exporter at present, is already deeply and profitably committed to sending its coal to western Europe.

This dim view of the ability of the Communist bloc, and especially of Communist China, to meet much of Japan's import requirements is supported by an analysis of the Chinese economy. Alexander Eckstein, a leading American expert on the subject, declares:



One of the initial questions that needs to be posed is whether mainland China is able to provide Japan with these raw materials at prewar rates, in the face of the re-structuring of internal demand in China. In this connection perhaps a distinction ought to be made between soybeans and salt, on the one hand, and the raw materials for industry, on the other hand. Soybeans, for instance, have continued to be exported in appreciable quantities in recent years, mostly to the Soviet Union. Yet, whether even with considerable re-direction of trade in case of relaxation of controls, China will be able to ship prewar quantities to Japan is rather questionable. According to official Chinese Communist statements, oilseed production as of 1954 was still below prewar. At the

TABLE X-2. JAPANESE IMPORT REQUIREMENTS COMPARED WITH SOVIET BLOC EXPORTS TO THE WEST, 1954-1956

(million dollars)

COMMODITY	1 9 5 4		1 9 5 5		1 9 5 6	
	Japanese Imports	Bloc Exports to the West	Japanese Imports	Bloc Exports to the West	Japanese Imports	Bloc Exports to the West
Raw cotton	409.4	46.7	362.0	56.9	451.4	40.8
Rice	250.9	13.6	196.7	21.1	108.3	19.6
Crude oil	134.0	4.9	148.6	8.9	223.8	7.5
Wool	147.1	13.7	164.4	16.9	208.8	31.2
Wheat	168.0	68.8	167.4	43.6	165.4	23.6
Sugar	108.1	23.0	115.9	12.4	128.3	20.9
Coal <sup>a</sup>	63.1	139.5	56.2	202.2	90.6	236.3
Scrap iron	43.9	1.8	63.8	1.9	183.4	2.7
Iron ore	66.2	0.9	81.5	<sup>b</sup>	146.5	<sup>b</sup>
Barley	51.1	7.0	39.8	4.0	62.0	17.5
Crude rubber	38.5	0.2	66.3	1.9	73.5	<sup>b</sup>
Timber	48.0	163.1	61.8	201.9	81.1	187.4
Hides & skins	19.8	30.8	22.3	34.7	30.5	45.4
Oilseeds & nuts	30.3	45.1	48.8	72.8	49.1	59.7
Soybeans	66.5		98.2		84.6	
Rayon pulp	20.5	9.4	16.3	19.8	26.5	13.8
Tin	10.0	—	12.2	<sup>b</sup>	16.2	1.9

<sup>a</sup> Includes bituminous and anthracite.

<sup>b</sup> Less than one million dollars.

Sources: Japan: *Monthly Return of the Foreign Trade of Japan*, December 1954, 1955, 1956. Soviet bloc: *Commodity Trade Statistics, Statistical Papers*, United Nations, Series D, January-December 1954, January-December 1955, January-December 1956.

same time, with a rapidly growing population and a domestic emphasis placed upon the need to increase soil fertility, domestic bean and bean cake requirements may be expected to rise. These considerations apply with even greater force to industrial raw materials and semi-manufactures. Thus, in the early 1940's about one half of the pig iron produced in Manchuria was exported to Japan. While there have been some shipments to the Soviet Union even in recent years, one may safely surmise that the preponderant bulk of pig iron now produced in China will actually be consumed by the local steel industry. The same may be true for iron ore, unless important new deposits are discovered and mined. At the same time, however, if Communist China comes anywhere near meeting Five-Year Plan production targets for coal, it may possibly have a considerable surplus for export. All of the factors outlined above would therefore tend to indicate that the basis of trade between China and Japan has been greatly narrowed, as compared to the situation prior to 1945.<sup>30</sup>

In the absence of controls, trade between the two countries would, of course, expand somewhat, but it is not likely to rise to the levels which many Japanese optimistically expect. From the comparison of Communist bloc exports with Japan's import needs, as shown in Table X-2, it can be estimated that over the next five years Japanese imports from Communist bloc sources, principally China, will not, even in the absence of all controls, exceed \$300 million or less than 10 percent of Japan's total imports.<sup>31</sup>

There are other limiting factors in the outlook for Sino-Japanese trade. For one, the Chinese are now largely self-sufficient in textiles and the policy of the Communist government thus far has been largely to eliminate imports of consumer goods, reserving its export earnings to pay for imported capital goods.

Indeed, in late 1957 it was reported that Communist China had become a trade rival of Japan in South and Southeast Asia. The dispatch declared:

Communist China has become a formidable trading rival of Japan in Southeast Asia and is beginning to displace her in major markets. This conclusion is based on reports from Japanese consular officials in Southeast Asia, who have been telling the Foreign Ministry what every Japanese exporter already knew: that their share of Southeast Asian trade is declining. . . .

Mainland China, instead of being a great open market eager to buy Japanese goods, eventually may be Tokyo's biggest competitor in the rest of Asia, Foreign Ministry analysts believe.<sup>32</sup>

While it is generally assumed that in the absence of trade controls and restrictions, Japan would find a large market in Communist China for capital goods, this is by no means inevitable. Shortly after controls were relaxed in mid-1957, Japan began to face sharp competition for the China capital goods market from West Germany and Great Britain. Both of these countries are, of course, eager for the China trade.

Shortly after the relaxation of trade controls in mid-1957, a West German trade and industry delegation negotiated a quasi-official trade agreement with Communist Chinese authorities. The agreement called for a 33 percent increase in the level of Sino-German trade over the 1957 figure. The head of the German delegation, who described his committee as "an extended arm of the Foreign Ministry," reported his accomplishment directly, on his return to Germany, to Heinrich von Brentano, the German Foreign Minister. That West Germany and Great Britain can both undersell Japan in capital goods has been repeatedly demonstrated. Thus comparative costs of production, quality and efficiency of product, durability, etc., will become important considerations in determining how much Japan can sell to China. Many Japanese seem to have assumed that if controls on trade with Communist China are dropped completely Japan will have the range of the market in China. But, as was seen when controls were relaxed in mid-1957, most leading industrial countries will compete and the Japanese, with higher prices for machinery and equipment, may therefore obtain less of the market than they expect.

A final limiting factor is the need of the Chinese for long-term credits for imports and the reluctance of the Japanese to become entangled financially. They have the example of Ceylon before them as a case study. As the London *Economist* noted:

Light has been shed on the much-discussed question of China's ability to pay for imports on a large scale by the long-drawn-out talks between the two countries on renewal of their agreement to barter rubber for rice. Under the old agreement, which expires this year, Ceylon sold China annually 50,000 tons of rubber, more than half its total output, in return for rice; any difference in the value between the rice and the rubber was to be settled in sterling. China's debt in sterling now amounts to £13.5 million, which it seems reluctant to pay. It has been trying to persuade

the Ceylonese to take the balance in manufactured goods, so that no money passes at all.

The Chinese move is a good example of the opportunities that barter agreements give of exerting economic, and eventually political, pressure. If Ceylon refuses to renew the agreement on China's terms it risks losing both a market and the money which it is already owed. If it accepts, it will have to restrict its imports from other countries, disregard its obligations under the General Agreement on Tariffs and Trade, and allow its economy to become still more vulnerable to pressure from China.<sup>33</sup>

It seems clear that in terms both of readiness and of capacity to absorb exports, and more important, of ability to supply Japan's import needs, the Communist bloc has much less to offer Japan than the free world. Any Japanese Government which carefully weighed the advantages of its present trading relationships in the free world against a prospective or contemplated trading role as a member of the Communist bloc could hardly escape the obvious conclusion that purely in the national self-interest, Japan's future economic progress, indeed its economic stability, will depend on maintaining and expanding present free world trade relationships. Obviously, however, Japan's probable strategy is likely to be to try to avoid a flat choice between one side or the other; it will seek rather to secure the benefits of trade with both.

## XI

# The Countervailing Forces

MITSUREBA KAKURU NYO NO NARAI

The moon waxes and wanes; this is the way of the world

THREE elements dominated Japanese society before the war—the military (Gumbatsu), the bureaucracy (Kanbatsu), and the business oligarchy (Zaibatsu). In seeking to dissect and analyze a country's economy, to isolate and examine the dynamic forces at work and the direction in which they are moving, there is, of course, great danger of oversimplifying. In any society there is normally a vast interplay of forces, pressures, and drives, and it is usually very difficult, at times impossible, to separate one from the other and observe each in isolation.

Yet it seems quite clear, with the advantage of years of hindsight, that in the thirties the Gumbatsu came increasingly into the ascendancy, and as the main driving force, securing acquiescence from the other two,<sup>1</sup> pushed Japan into a military adventure, the most disastrous consequence of which, from its point of view, was its own demise. For after the war the Occupation authorities, regarding this prewar triad as a vicious alliance, sought to destroy two of its elements, greatly modify the third, and create a fourth element as a countervailing force.

They sought to eliminate the military and the Zaibatsu, to modify substantially the power of the government, and to develop a labor movement as a democratizing element. While it is yet too soon to make final definitive judgments, some tentative evaluations are possible. Perhaps because they were military men for the most part, the top Occupation officials had their clearest success in dealing with their Japanese counterparts, the Gumbatsu. So effectively did they

eliminate the influence of this element from the Japanese scene that in more recent years, when, in view of the growing Communist threat, the logic and wisdom of demilitarizing Japan began to be questioned in the United States, it proved to be exceedingly difficult to convince the Japanese that even a pale and meager version of the old military power should be recreated. Today defense expenditures absorb only 10 percent of the Japanese budget. Twenty years ago, in 1937, military expenditures amounted to 71 percent of the total outlay.

#### THE BUREAUCRACY

Perhaps least affected by the years of stress and upheaval was the Japanese bureaucracy. It was like an iceberg buffeted by a storm. Some of the pinnacles were cracked or chipped, some even broke off and disappeared, but the vast submerged section drifted on unaffected and unscarred. Wartime ministers lost their posts and new ones took their places, but except in a few ministries which were regarded as particularly responsible for reprehensible war actions—the Home Ministry for example—the career officials continued to run their phase of the government, under new directives to be sure, and with a slightly new air of deference, but with authority largely undiminished. The Occupation tried to diminish the power of the central government, especially in the fields of education and police. Admirable though this effort was in the interest of furthering democracy in Japan, it did not survive long at the hands of the post-Occupation Japanese government. Indeed, the Occupation itself had seen the need to retain and rely upon the Japanese central government as the best means of exerting effective control over the country.

One leading Japanese authority writes:

Despite the enactment of many postwar laws, administrative officials have held fast to departmentalism in their respective ministries: their traditional influence is still alive. The occupation which adopted a formula of indirect rule rather than direct military government, fostered this tendency, for SCAP turned to the bureaucracy for execution of its policies. . . . whereas the zaibatsu and the military structure were dissolved, the bureaucratic machinery was preserved.<sup>2</sup>

There was therefore in Japan at the end of the war no total collapse of government, no ruthless elimination of the old form of

authority, such as had occurred in other defeated countries. The façade was changed, the source of directives was different, but the vast body of career bureaucrats, who had loyally and dutifully carried out the orders of the Gumbatsu, now loyally and dutifully carried out the orders of Occupation authorities. The whole concept of making the bureaucracy responsible to the people through political elections was, of course, something the Japanese had been observing in form for some seventy years but largely ignoring in substance. As Professor Chitoshi Yanaga has observed:

While the Japanese governmental structure before World War II was as Western and modern as any in Europe or America, the concepts and attitudes which constituted the mainsprings of government and politics bore little, if any, resemblance to those of the West. Nor could the behavior and actions of the leaders or the people be judged in terms of Western patterns or standards of value. Needless to say, the inception of the modern Japanese political system was impelled more by external pressures than by internal needs to establish a Western type of constitution and a parliamentary government. In the carefully planned and executed modernization of the nation's administrative machinery, the primary objective was the achievement of such over-all organization as would ensure a high degree of efficiency and a rapid development of industrial and military power. Inevitably emphasis fell on organizational modernization, which influenced only very slightly the traditional ideas of the people. It was natural that the Meiji constitution of 1889, which clothed the Japanese Government in Western garb, should have been not an instrument designed primarily to secure the inalienable rights of the individual, but rather a means of achieving national strength and international recognition. Western concepts of liberty and popular rights which were then espoused had been acquired largely out of context and without the benefit of the necessary environment which only working institutions and practices could render meaningful. Traditional ideas and attitudes continued to dominate political thought. . . .<sup>3</sup>

These traditional ideas and attitudes, such as status, acceptance of authority, loyalty, duty, discipline, etc., continued to prevail between the governed and the governors—the career ministry officials—throughout the postwar decade, and the remarkable stability and acquiescence in post-surrender Japan can be largely attributed to the continuing firm hand of the Kanbatsu acting under Occupation authority.

Of the Japanese bureaucracy, Professor Tsuji writes:

In the Meiji era, a strict hierarchy with the Emperor at its apex was dominant in government, and bureaucrats, who considered themselves the embodiment of the Emperor's authority, assumed a privileged superior air towards the common people. The lamentable attitude of "reverence for the government and disdain for the people" penetrated into every nook and corner of Japanese society and bureaucratism was dominant in this country as in Prussia in the seventeenth and eighteenth centuries.

An important cause of this feeling is easily understood when it is recalled that in the early days of the Meiji government, former samurai comprised 80 percent of the officials in all central administrative organs. . . . Indeed bureaucracy in Japan offered a minority a special "reserved seat" in society. . . .

Japanese bureaucracy, which grew up in this environment, has been democratized to some extent by the new Constitution. But its former privileges are now being sought again by those leaders who advocate curtailment of democratic institutions and revision of the Constitution. Even more dangerous to Japanese democracy is the fact that the bureaucracy peculiar to Japan is reviving along with the inevitable expansion of governmental administration that characterizes world society today.<sup>4</sup>

In the postwar decade the Japanese bureaucracy were much like caretakers getting and keeping the house in order pending the owner's return. As a group that makes policy within the broad limits set by cabinet determination, as an influential element resistant to change and in favor of traditional ways of doing things, suspicious of and not very favorably disposed to democracy, which seemed to threaten its authority, the Japanese bureaucracy is today no less and perhaps more a force than before the war.

#### THE ZAIBATSU

The term "Zaibatsu" is hard to define, particularly since it has few or no counterparts in the West. Technically the word means "money clique." A recent Japanese study declared:

Zaibatsu was a term used vaguely to denote a few groups of comprehensive business organizations, each controlled by a holding company, supported by a network of influential companies engaged in almost every field of staple industries. They had been gradually formed and built up by the investment of huge capital funds accumulated in the hands of a few big families.<sup>5</sup>



General MacArthur, in a New Year's message to the Japanese people in 1948, described the Zaibatsu system in the following way:

Economically, allied policy has required the breaking up of that system which in the past has permitted the major part of the commerce and industry and natural resources of your country to be owned and controlled by a minority of feudal families and exploited for their exclusive benefit. The world has probably never seen a counterpart to so abnormal an economic system. It permitted exploitation of the many for the sole benefit of the few. The integration of these few with government was complete and their influence upon government policies inordinate, and set the course which ultimately led to war and destruction.<sup>6</sup>

In its official summary, the Occupation declared:

The Japanese economy before and during the war was dominated by the Zaibatsu—a few powerful families, wedded for mutual protection and advantage with influential elements of Japanese society—who controlled the major part of the industry, mining, finance, and commerce of Japan, and in large part, the livelihood of the people of Japan. Independent enterprises and free competition existed, but only in minor segments of the economy. Characteristically, Japan was a land of private internal economic empires featured by international and domestic cartel arrangements, pyramids of operating and holding companies, monopolies of basic resources, key services and strategic equipment, and control over major banking and insurance institutions.<sup>7</sup>

Perhaps the broadest description was that of the U. S. Mission on Japanese Combines. It found:

Something has been seriously wrong with the social system of Japan. Since the Meiji restoration monopolistic ventures have been the focus of Japanese foreign policy and during much of the time the army and navy have dominated Japanese politics. The industrial revolution has failed to produce the democratic, humanitarian, and cosmopolitan sentiments which were its counterpart in most countries, even in Germany before the first World War. In spite of the growth of industry and commerce, there has been neither an aggressively independent middle class nor a vigorous labor movement. Though the standard of living has risen, its increase has not been the phenomenal surge which appeared in England, in the United States, and Germany under the impetus of rapid industrial development.

Doubtless no single condition is responsible for these peculiarities. The excessive concentration of economic power in Japan is, however,

one of the most important conditioning factors. Instead of the diffused business initiative which gives rise to a middle class, Japan's industry has been largely under the control of a few great combines, the greatest of which began their rise to power in feudal times and all of which have enjoyed preferential treatment from the Japanese government. This type of industrial organization tends to hold down wages, to block the development of labor unions, to destroy the basis for democratic independence in politics, and thus to prevent the rise of interests which could be used as counterweights to the military designs of small groups of ambitious men.<sup>8</sup>

The four principal Zaibatsu groups were Mitsui, Mitsubishi, Sumitomo, and Yasuda. Lesser Zaibatsu included Asano, Shibusawa, Nomura, Okura, Furukawa, Nakajima, and Nissan.<sup>9</sup> For five years, under the Occupation, a series of measures was instituted designed to break up such combines, to redistribute their corporate holdings, to reduce elements of monopoly in the Japanese economy, and to foster more extensive competition, a condition largely alien to the Japanese way of business life. In the process, the Japanese industrial and trading structure was torn asunder; companies were deprived of their most experienced executives, splintered into uneconomic units, severed from customary sources of financing, and cut off from sources of raw materials. In the five years following the end of the Occupation, the process was reversed. Restrictions and laws were eased, companies merged to form larger, more effective units, old financial relationships were reestablished, and the traditional Japanese tendency to integration, monopoly, cartels, quotas, allocations, administered prices, and restrictive business practices began to emerge once again.<sup>10</sup>

Early in the Occupation, 57 members of 11 families were designated as "Zaibatsu;" their securities were taken over for disposal and their participation in business activity was restricted. Of the holding companies which cemented the combines, 32 were dissolved while another 51 were permitted to retain their operating facilities, but required to dispose of their stock holdings in other companies. To accomplish these purposes a Holding Company Liquidation Commission was established,<sup>11</sup> and it sold the 166 million shares transferred from the Zaibatsu and from the holding companies to employees, investors, and the general public.<sup>12</sup> Special attention was given to the very large trading companies. In July 1947 the Mitsui Bussan and

Mitsubishi Shoji, the two largest Zaibatsu trading companies, which accounted for 70 percent of Japan's prewar foreign trade, were ordered dissolved. From them more than 200 new trading companies were formed, no one of which had the financial resources or facilities for extensive trade.

Apart from the holding companies, certain operating companies were found to be excessive concentrations of economic power. The Mitsubishi Economic Research Institute noted:

Control by monopolistic capital of the various branches of Japanese industries was extremely widespread. Enumerating only the principal ones; in coal mining it represented 51%, in paper and pulp manufacturing 50%, in steam engine manufacturing 88%, in the silk industry 55%, in chemical dyestuff manufacturing 47%, in the aluminum industry 69%, in rayon manufacturing 20%, in steam locomotive manufacturing 69%, and in gunpowder manufacturing 30%.<sup>13</sup>

To cope with the situation the Law for the Elimination of Excessive Concentrations of Economic Power was passed<sup>14</sup> in 1947, and under it some 325 of the largest non-financial companies of Japan were designated as possible excessive concentrations of power. The Holding Company Liquidation Commission was authorized to break up any of these that were judged to be excessive concentrations. After scrutiny 295 companies were judged not to be excessive, 11 were ordered to divide into independent companies, and 7 were ordered to divest themselves of certain properties or to take other action. The nine electric distribution companies and the single generating company were ordered to dissolve and to establish nine new integrated regional generating and distributing companies. All control associations, both national and local, which had been responsible for a web of cartel-like arrangements, both before and during the war, were ordered dissolved.<sup>15</sup>

To insure permanent and continuing action against monopolistic practices and excessive economic concentrations, an Anti-Trust Law,<sup>16</sup> modeled after U.S. anti-trust statutes, and a Trade Association Law were passed, and a Fair Trade Commission<sup>17</sup> was set up to enforce the statutes on a continuing basis. The anti-trust act prohibits unreasonable restraints of trade, unfair methods of competition, etc. To carry out these provisions, the following activities, *inter alia*, were made illegal: price-fixing and restrictions on produc-

tion, controls which provide for allocation of products or materials, participation in international cartels or holding companies, inter-corporate ownership of shares, excessive mergers, etc. In 1950 the Japanese Commercial Code was amended to provide greater shareholders' rights and fix the responsibilities of corporate management.<sup>18</sup> A Securities and Exchange Commission, modeled after that of the United States, was established.

No sooner had the Occupation ended (April 1952) than steps were taken to relax the restrictions which it had imposed. In 1953 the Anti-Trust Law was amended to permit the formation of "depression cartels" and "rationalization cartels." The agreement among cotton mills to curtail production is an example of the former. The cartel formed by five leading bearing manufacturers to limit production of certain types and to restrict output to fewer varieties is an example of the latter. And, as the *Oriental Economist* noted, "In addition to the forming of cartels in the ways described above, there have, in recent years, been moves toward cartelization in certain key industries through special legislation. This tendency is seen as an attempt to emasculate the Anti-Monopoly Law."

Two examples must suffice, though there are many more. In August 1955, the Coal Mining Rationalization Emergency Measures Law was passed. The measure reads in part:

When, because of extreme imbalance of the supply-demand situation in coal, the selling price of coal tends to fall appreciably below the standard coal price as established by the Coal Mining Deliberation Council, and there is danger of the bulk of coal operators being forced into difficulties which may prevent them from continuing in business, the Minister of International Trade and Industry shall be empowered to direct the coal operators to take concerted action for restriction of production and regulation of the selling price of coal.

The Export-Import Transactions Law now permits the formation of cooperative associations to promote exports and condones production limitations and price-fixing for this purpose. For example, the Cement Export Cooperation Association fixes export quotas for each producer, sets a standard export price, and pools all funds in excess of this price. Ammonium sulphate exports are also subject to the same type of cartel arrangement, by a specific legislative exception to the anti-trust act. The anti-monopoly law was also amended to permit corporations to hold shares in competitive com-

panies, to legalize interlocking directorates, and to raise the upper limit of shareholding by financial institutions from 5 to 10 percent.<sup>19</sup>

Table XI-1 shows the areas of high concentration in Japanese industry, while Table XI-2 indicates the areas of low concentration.

But perhaps the most important development has been the re-grouping of the former Zaibatsu firms. The *Oriental Economist* noted:

Rehabilitation of the Japanese economy continues to show progress despite the buffetings received from the cycles of boom and slump; but in the process there have occurred such phenomena as the regrouping of the trading firms, the massing into industrial and business complexes of the former "zaibatsu" concerns, the various arrangements among

TABLE XI-1. JAPAN: INDUSTRIES WITH HIGH CONCENTRATION OF PRODUCTION

(percent of total output)

	One Company	Three Companies	Five Companies	Ten Companies
Oilwell drilling and operation	97.8	—	—	—
Iron and steel	23.0	51.2	65.5	77.3
Cast iron pipe	63.4	98.8	99.0	100.0
Electrolytic copper	30.1	70.3	87.5	100.0 <sup>b</sup>
Aluminum	48.5	100.0	—	—
Electric locomotives	27.9	74.4	100.0	—
Motor truck chassis	28.1	79.8	96.4	100.0 <sup>c</sup>
Light trucks (4 wheels)	47.6	98.3	99.9	100.0 <sup>d</sup>
Timepieces	31.1	65.1	75.4	89.1
Photographic film	79.4	100.0	—	—
Sheet glass	57.1	100.0 <sup>a</sup>	—	—
Food container cans	49.1	77.9	88.7	—
Synthetic fibers	51.3	92.1	99.9	100.0
Beer	36.8	100.0	—	—
Monosodium glutamate	79.6	89.8	97.2	100.0 <sup>b</sup>
Express transportation	65.7	—	—	—
Raw celluloid	47.3	67.8	79.2	90.2
Butter	40.4	70.1	83.3	86.0
Powdered milk	34.8	85.7	93.4	96.3
Electric power	22.5	56.4	80.1	100.0 <sup>d</sup>

<sup>a</sup> Two companies. <sup>b</sup> Eight companies. <sup>c</sup> Seven companies. <sup>d</sup> Nine companies.

Source: *The Oriental Economist*, Tokyo, September 1957, p. 459.

TABLE XI-2. JAPAN: INDUSTRIES WITH LOW CONCENTRATION OF PRODUCTION

(percent of total output)

	One Company	Three Companies	Five Companies	Ten Companies
Pattern A <sup>a</sup>				
Sake brewing	1.0	3.0	4.6	7.6
Match manufacturing	9.4	4.2	31.0	47.8
Wool yarn spinning	6.8	11.7	15.8	22.4
Pattern B <sup>b</sup>				
Sewing machines	14.5	25.1	32.9	49.7
Soy sauce brewing	12.4	17.9	21.2	25.1
Foreign trade	9.2	20.4	30.0	43.8
Cotton fabrics	2.7	8.1	12.6	18.6
Milk	15.9	30.1	32.9	37.2

<sup>a</sup> Almost totally small business.<sup>b</sup> A mixture of large and small.*Source: The Oriental Economist*, Tokyo, September 1957, p. 460.

groups of businesses, and the formation of cartels by specific classifications of business. And in the face of such moves toward concerted action, the Anti-Monopoly Law has tended in one way or another, to be considered a nuisance.<sup>20</sup>

The Mitsubishi Economic Research Institute observed:

It was not until the coming into force of the San Francisco Peace Treaty in April 1952 that the various restrictions on the activities of these former Zaibatsu affiliates were gradually removed or moderated. There has since then been a natural desire among them either to revert to former titles and trade marks, in view of their inherent value, or to undertake a joint investment of capital, or even to merge with related concerns with a view to strengthening their foundation.<sup>21</sup>

The regrouping of the Zaibatsu enterprises is not being undertaken through family auspices or holding companies, as before the war, but rather by three means: (a) purchase of stock by one company in another, (b) interlocking directorates for veteran Zaibatsu managers, and especially (c) Zaibatsu bank leadership in pulling together, financing, and organizing the scattered companies. In the case of Mitsubishi the trend toward closer stockholding interrela-

tionships was particularly noticeable in the case of the Mitsubishi Bank, Mitsubishi Trust and Banking, Mitsubishi Warehouse, Mitsubishi Shipping, Mitsubishi Shoji (the trading company), Tokyo Marine and Fire, Mitsubishi Chemical Industries, Mitsubishi Shipbuilding, Mitsubishi Mining, Mitsubishi Heavy Industries Reorganized, Mitsubishi Steel, and Mitsubishi Rayon. Some 30 percent of the Mitsubishi Bank's investments (excluding its investment in Mitsubishi Trading) are in shares of various Mitsubishi companies. Mitsubishi corporations depend heavily on credits from the Mitsubishi Bank, from which the 23 leading Mitsubishi companies have obtained more than 25 percent of their total loans.<sup>22</sup>

In July 1954 the new Mitsubishi Trading Company resulted from a merger of four offshoot trading firms. After its recapitalization in December 1954, 33.5 percent of its stock was held by other Mitsubishi companies.<sup>23</sup> Lateral connections between Mitsubishi companies are strengthened by interlocking directorates on the part of such Mitsubishi veterans as Messrs. Ishiguro, Makino, Tanaka, and Takagaki.

Of the big four Zaibatsu, the Sumitomo group was the first to start to recombine and is now regarded as the best integrated of all the Zaibatsu. Again interlocking directorates, intercompany stock investments, and financial activities of the Sumitomo Bank were the main means used. The *Oriental Economist* stated:

In the area of financing, a glance at Table 9, showing the companies receiving loans from the Sumitomo Bank, clearly reveals the preference given to enterprises of the Sumitomo Group and their affiliates. The borrowings of these companies aggregate some 30 percent or more of all loans extended to corporate entities. In every case, except Sumitomo Coal Mining and Sumitomo Chemical Industry, the Sumitomo Bank is high up above other banks on the list of sources of credit.<sup>24</sup>

The group-directed lending policy of the Sumitomo Bank has established it as the center and focal point of Sumitomo group operations. There are, however, two other interesting features of the Sumitomo revival. One is the club, the Hakusuikai, which was formed by the presidents of 14 former Sumitomo subsidiaries, soon after the Occupation ended. "Although this club started out as a purely social gathering," the *Oriental Economist* said, "meeting twice each year, the meetings have become more frequent in recent times on a monthly or bi-monthly schedule, and advances have been

made in coordination of action among the companies headed by the members."<sup>25</sup>

One consequence of this coordination of action has been an increase in inter-company sales. Sumitomo Metal Mining sells about 60 percent of its copper output to Sumitomo Electric Industry and to Sumitomo Metal Industry, while it supplies Sumitomo Chemical Industry with pyrites and sulphuric acid. Sumitomo Chemical Industry sells the bulk of its aluminum to Sumitomo Electric Industry and to Sumitomo Metal Industry. Examples could be multiplied. Sumitomo Kyodo Electric Power, for example, sells its power to Sumitomo Metal Mining, Sumitomo Chemical Industry, and Sumitomo Machinery. Sumitomo Shoji, the trading company, does the bulk of the selling of Sumitomo companies' products and the procurement of raw materials.

The Mitsui were somewhat slower in regrouping, in part, it would appear, because of the inadequate resources of the Mitsui Bank. In the prewar Zaibatsu structure, the Mitsui Bank occupied a clearly secondary position to the Honsha (family holding company) which directed the Bank's operations. When the Honsha was dissolved after the war, the bank had to assume the leadership of the group, which had expanded greatly in size and numbers during the war. Its financial resources, however, were not equal to the task because it was forced to separate from the Dai-Ichi Bank, which it had absorbed during the war (to form the Teikoku Bank). This meant a reduction of 50 percent in both capital and deposits.<sup>26</sup> Nevertheless, the Bank attempted to give preferential treatment to members of the Mitsui group, but some companies, unable to secure adequate financing, turned to other banks, such as the Hypothec and Industrial Banks, for funds. The Mitsui Bank, however, as the principal creditor of Dai-Ichi Bussan, one of the main trading firms resulting from the splintering of Mitsui Bussan, was probably the principal agent in engineering the reconsolidation of the Mitsui trading companies, culminating in April 1956 in the merger of the two main companies, Dai-Ichi Bussan and the new (postwar) Mitsui Bussan, to form a super-Mitsui Bussan. Thus, of the 180 companies into which the old Mitsui Bussan was split, most have been brought back into the fold by repeated amalgamations and mergers.

Other growing interrelationships can be traced, indicating reformation of the group. For example, three Mitsui chemical companies,



Mitsui Chemical, Toyo Koatsu, and Miike Synthetic Industry, are closely integrated around Mitsui Mining. Miike Synthetic Industry buys coal from Mitsui Mining, has it washed by Mitsui Chemical, and then produces coke and gases from it. All of the gas and 60 percent of the coke go straight to Toyo Koatsu for the production of ammonium sulphate. Another illustration of developing relationships between Mitsui companies is that between Mitsui Chemical and Toyo Rayon. Mitsui Chemical is the largest domestic producer of carbolic acid, accounting for 80 percent of national output. Virtually all of Mitsui's production is taken by Toyo Rayon for the manufacture of nylon and vinyl.<sup>27</sup>

From the three cases described, the pattern of Zaibatsu re-emergence seems clear. On the one hand, each group's bank is apparently to take the leading role formerly held by Honshas and holding companies, since there is no evidence of the revival of these latter forms. The growth in the role of the bank is a logical development. It does not run afoul of remaining laws and restrictions. Furthermore, the much greater dependence of Japanese industry on borrowed funds in the postwar era greatly increased reliance on the banks and thus made the bank's role more vital and essential than ever before.<sup>28</sup>

As the accompanying table shows, industrial companies have depended much more heavily upon external sources of funds in the postwar period than in earlier years. Naturally, the ability of Zaibatsu banks to give preferential treatment to companies of their own group was a valuable tie and source of authority. As the Mitsubishi Economic Research Institute has said: "In Japan, the sources of industrial funds are overwhelmingly external, consisting in particular in borrowings from financial institutions. The dependence on the issue of shares and debentures is very low."<sup>29</sup>

SOURCES OF INDUSTRIAL FUNDS IN JAPAN

Sources	1934	1950	1951	1952	1953	1954	1955
Total	100	100	100	100	100	100	100
Internal	53.3	17.0	28.7	19.6	25.2	37.4	33.8
External	46.7	83.0	71.3	80.4	74.8	62.6	66.2

*Source:* Mitsubishi Economic Research Institute.

The second phase of Zaibatsu re-emergence which is taking form appears to be mergers and consolidations, especially in the field of

trade. The movement seems to have made greater headway in commerce than elsewhere because of encouragement by the government, which apparently feels that it is an essential step in the restoration of Japan's foreign trade. Also the fragmentation of trading firms was greater than in other fields, resulting in a very large number of weak firms, inadequately capitalized and staffed. The president of Mitsubishi Shoji asserted:

The evil of excessive competition is apparent, too, in the field of various trade commodities. For example, some 15 trade concerns vied to get an import contract for 30,000 tons of coal for a certain Japanese customer. The result was that this exaggerated into a deal for the import of some 450,000 tons of coal on the U.S. market and boosted the freight rate within a single day. The writer considers that this system of preposterous waste of energy and inefficient bidding should and can well be rectified.<sup>30</sup>

It should be noted that the regrouping of the Zaibatsu firms is taking a form very different from the prewar pattern. The families which formed the nucleus of the Zaibatsu in the past lost their financial preeminence after the war. The capital stock of their former companies is now many times greater than before the war and more widely held by the general public. But as one survey noted: "In fact the zaibatsu mechanisms have been destroyed, but the spirit of cooperation in management in which they acted hand in hand to attain a common object, regardless of individual interests, has been kept alive, and they still maintain close relations in production and transactions, in techniques and management. . . ."<sup>31</sup> Or, to put it more succinctly: "Thus, the companies formerly associated with the former Zaibatsu have succeeded in regaining leading positions in the principal industrial branches despite the various restrictions."<sup>32</sup>

#### THE LABOR MOVEMENT

Possibly on the theory that no one would oppose an organization known as the Friendly Love Society (Yuaikai), Japanese labor set up in 1912 an organization which is generally held to mark the beginning of the modern labor movement in Japan. The government, however, was not deceived. The Friendly Love Society ran afoul of the Peace Preservation Law (designed to preserve industry's peace from labor's friendly love) and the police made short shrift of it. Nor was labor organization, under different guises, very much more

successful in later years until General MacArthur and Theodore Cohen came along. (Theodore Cohen, earlier of OSS, was General MacArthur's first Labor Division chief. He is generally credited with encouraging the development of the postwar Japanese union movement.)

The peak of the prewar union movement was reached in 1936. The organized membership totaled only 420,589, or 6.9 percent of the non-agricultural labor force. The Mobilization Act of 1938 establishing government control of wages and hours, and labor conscription, together with the establishment of the Industrial Patriotic Society (Sampo), the government-controlled labor front, ended the existence of the comparatively small number of free unions that had developed up to that time.<sup>33</sup>

According to an Occupation report:

Sampo was under the jurisdiction of the Welfare Ministry and maintained rigid control of labor. It became purely a tool to expedite the war effort and free labor organization was crushed. The Public Peace Police Act had already severely restricted labor activities in time of strike. Thus at the time of the Surrender the Occupation found practically no labor organization extant.

The response of the workers of Japan to the policies of the Occupation encouraging the organization of labor and collective bargaining with employers was almost instantaneous: On October 11, 1945 the Supreme Commander issued instructions to the Japanese Prime Minister that the unionization of labor should be encouraged. The organization of unions following the Supreme Commander's instructions to the Prime Minister was remarkable. At the time of those instructions, there were five unions in Japan with a total membership of 5,300. By January 1946 the number had grown to 1,179 unions with almost 900,000 members; by the end of 1946, the number stood at 17,000 unions and 4,800,000 members.<sup>34</sup>

The peak of union membership came in 1948-49. The decline after 1949 was due in part to the deflationary policies imposed in that year and the subsequent failure of a number of small and medium-sized firms. Official discouragements also took their toll. Professor Levine\* states:

\* I am much indebted to Professor Solomon B. Levine of the University of Illinois for lending me the completed manuscript of his "Industrial Relations in Postwar Japan," an excellent study upon which I leaned heavily for background and orientation in this field.

SCAP's initial encouragement for unionism was blunted as early as 1947 with the prohibition of the February 1 general strike. A cautious attitude toward labor led eventually to further GHQ-approved restraints; denial of union rights to government workers (1948), revision of the postwar Trade Union Law (1949), and removal of trade union leaders from positions of influence under the Dodge plan retrenchment (1949) and the "Red purge" (1950). These measures were thought by many the end of labor's opportunity to assume an important role in the new Japan. They took their toll. From the high point of seven million reached early in 1949, total membership dropped to about 5.5 million during the next two years. Of the 35,000 union organizations that had sprung up, almost one fourth had disappeared by 1951.<sup>35</sup>

Since the low point in 1951, however, the Japanese labor movement has exhibited a surprising degree of stability and resiliency, despite continued official attempts at restraint, such as the emergency strike law of 1952 and the Coal and Electric Strike Control Act of 1953. With 36 percent of all paid employees organized (1957), the Japanese ratio is comparable with that in Western countries (United States 35 percent, United Kingdom 45 percent), although, as Professor Nakayama points out, one must take into consideration the smaller number of paid employees in Japan in proportion to the total number of persons gainfully occupied—46 percent in Japan against 90 percent for Britain and 80 percent for

#### UNION MEMBERSHIP IN JAPAN, 1946-1957

Year <sup>a</sup>	Number of Unions	Total Membership	Percent Organized
1946	12,006	3,679,971	31.0
1947	23,323	5,692,179	46.8
1948	33,926	6,677,427	54.3
1949	34,688	6,655,483	55.7
1950	29,144	5,773,908	45.9
1951	27,644	5,686,774	42.6
1952	27,851	5,719,560	40.2
1953	30,140	5,851,286	40.9
1954	31,456	5,986,168	39.6
1955	32,012	6,185,348	38.8
1956	34,331	6,372,204	36.4
1957	36,084	6,606,275	36.1

<sup>a</sup> End of June each year.

Source: Ministry of Labor, Tokyo.

the United States.<sup>36</sup> The lower percentage for Japan is due to the presence in the labor force of a large number of family workers (30 percent) and self-employed (24 percent), engaged in agriculture and small business.<sup>37</sup> This may be seen in the following tabulation:

## LABOR FORCE AS OF MARCH 1957

	(thousands)
Self-employed (a)	10,820
Unpaid family workers (b)	12,420
Employees (c)	19,030
Unemployed	820
Total	43,090

*Note:* The discrepancy between the total and the sum of the breakdown is due to rounding of figures. The sum of (a), (b), and (c) represents the number of "Employed."

*Source:* *Monthly Report of Labor Statistics*, Ministry of Labor, Tokyo, September 1957.

Agriculture and small enterprise in Japan are hardly touched by unionism. The bulk of the unionists are found in larger enterprises, especially in mining, transportation, and communications, and in government service. Surprisingly, as Table XI-3 reveals, government workers are more highly unionized than are those in manufacturing. A high degree of organization is found in such fields as iron and steel, electrical products, chemicals, coal and metal mining, banking, teaching, government-operated railroads, etc., whereas the rate of unionization is low in agriculture, fishing, textiles, ceramics, retail and wholesale trade, and construction.

There is a queer dichotomy in the Japanese labor structure between the large national labor federations, which are mainly concerned with political action, and the unions themselves, mainly "enterprise" unions, each largely absorbed in wresting economic benefits from its own management. Levine estimates that 90 percent of all Japanese unions are organized on an "enterprise" basis. He declares:

Operationally this means that, for economic purposes, the unions have attempted to match their span of control against that of the managerial entity. In Japan, each modern industrial enterprise, whether privately or publicly owned, has played a distinct and specific role within

TABLE XI-3. UNION MEMBERSHIP IN JAPAN BY MAJOR GROUPS, JUNE 1957

	No. of Unions	No. of Union Members	Percent of Unionization <sup>b</sup>
All industries <sup>a</sup>	36,084	6,606,275	36.1
Agriculture and forestry	515	63,292	7.5
Fishing	144	41,664	23.1
Mining	1,119	381,146	66.9
Construction	2,086	375,994	28.7
Manufacturing	10,597	2,128,293	35.0
Trade, finance, real estate, insurance	4,612	514,847	16.4
Transportation, communication, other public utilities	8,168	1,540,033	70.3
Service industries	5,161	965,832	33.4
Government	3,651	623,957	55.2

<sup>a</sup> Total for all industries includes industries not listed in table.

<sup>b</sup> Calculated from the number of union members according to the Ministry of Labor and the number of employees according to the Survey of the Labor Force, Statistical Bureau, Prime Minister's Office.

*Sources:* Statistical Bureau of the Prime Minister's Office, and Ministry of Labor, Tokyo.

the economy. . . . This legacy of discreteness carried over into the post-war years despite the zaibatsu "dissolution" and attempts to prevent the reemergence of cartels. Even among the government operations, where there is a single employer unmotivated by profit, sharp distinctions between agencies are readily apparent. As a result unionists have displayed an "enterprise" consciousness, as opposed to a craft, industrial, or even working class ideology. This instrument of enterprise organization has provided unions with effective means to match the power of managements. . . . All these internal organizational features tend to fortify the preoccupation of the enterprise union with its status in the enterprise rather than with the development of a unified, horizontal trade union movement. This inward orientation, paradoxically, has served to give durability to widespread unionism while remaining a major obstacle to labor unity.<sup>38</sup>

Union activity of this variety has produced some significant economic gains for Japanese workers. Real wages, for example, in 1956 were 13.5 percent higher than the 1934-36 level and 33 percent

above 1951. Cost of living bonuses, fringe benefits of various types, family allowances, etc., make the Japanese wage system a strange affair to Western eyes.<sup>39</sup> For example, the new wage system in the Japanese electric power industry looked somewhat as follows as of March 1955:

	Yen	Percent
Regular pay	9,217	42.8
Family allowance	1,990	11.7
Regional allowance	1,092	6.4
Subtotal	<u>10,299</u>	<u>60.9</u>
Ability pay	5,920	35.2
Long service allowance	653	3.9
Subtotal	<u>6,573</u>	<u>39.1</u>
Grand total	16,872	100.0
Position allowance—1	125	0.74
Position allowance—2	143	0.85

*Source:* Japan Electric Industry Workers Union.

The establishment of a Labor Ministry and a series of favorable laws enabled the unions to press their advantage. The four basic statutes were (1) the Trade Union Law, promulgated in December 1945, which sets forth the basic right of workers in private industry to organize and bargain collectively and to strike; (2) the Employment Security Law of November 1947, which authorizes the government to operate a system of free public employment exchanges, provides for public support of vocational guidance and vocational training, outlaws labor bosses and other undemocratic forms of labor recruitment, etc.; (3) the Labor Standards Law of April 1947, which prohibits all forms of involuntary servitude, establishes standards relating to wages, hours of work, rest days, overtime, vacations, safety and sanitation, employment of women and minors, apprenticeship, workmen's compensation, dormitories, etc.; and (4) the Labor Relations Adjustment Law, setting up machinery for settlement of labor disputes, passed in September 1946.<sup>40</sup>

These acts, as well as others such as the Unemployment Insurance Law and the Workmen's Accident Compensation Act, gave the unions the legal basis for their purely economic activity, which, on

the whole, from their point of view, has been largely successful. The economic gains of Japanese unions in the postwar era have been substantial. This is not surprising as they were supported by favorable legislation and were contending against weakened managements.

The national labor federations, in their political activities, have, on the other hand, been relatively unsuccessful. With the local unions working day in and day out for economic gains, the loose superstructure erected above them has tended to concentrate on ideological and political controversy. As might be expected under the circumstances, there have been numerous shifts, splits, reorganizations, and new formations, too numerous to trace in detail here,<sup>41</sup> but sufficiently disruptive to limit severely the effectiveness of national labor organizations in Japan.

No sooner was the postwar unionization drive under way than two rival national organizations sprang up in mid-1946. One was Sodomei (Nihon Rodo Kumiai Sodomei, or General Federation of Japanese Trade Unions); the other was Sanbetsu (Zen Nihon Sangyobetsu Rodo Kumiai Kaigi, or National Congress of Industrial Unions). Sodomei was a revival of a prewar organization of that name; it consisted of right-wing labor elements and supported the newly established Social Democratic Party. A confederation of 24 prefectural federations and four industrial unions, it had approximately 850,000 members and drew its support mainly from light industry (textiles) and smaller enterprises. Sanbetsu, on the other hand, which represented the leftist elements, was largely under control of the Japanese Communist Party,<sup>42</sup> and was organized on a national industrial union basis. It claimed 1.6 million members and drew its support from government workers, miners, electric power, transportation, and other heavy industry groups. At their peak, the two organizations together represented only half of organized labor; the remaining 50 percent preferred to stay unaffiliated with either "center."<sup>43</sup>

Communist leadership in Sanbetsu was attacked within the unions by the Mindo, or Democratization Leagues, which originated in 1947 in the large, Communist-dominated National Railway Union. In 1948 and 1949 the Occupation and the government imposed new restrictions on labor activity; government employees were forbidden to strike and changes were made in the Trade Union Law and the Labor Relations Adjustment Law. These developments led



to a sharp decline in Sanbetsu membership. By the end of 1949 it had lost half its members. The Red purge in 1950, when known Communists were removed from both government and private employment, completed Sanbetsu's demise. This cleared the way for the formation of a larger federation of right-wing unionists, and in mid-1950 Sohyo (Nihon Rodo Kumiai Sohyogikai, or General Council of Japanese Trade Unions) was organized by a combination including the Mindo groups, Sodomei, Shinsanbetsu (a group of 200,000 which had withdrawn from Sanbetsu in 1949), and various unaffiliated national unions, all anti-Communist or non-Communist.

No sooner was Sohyo under way than dissension, disagreements on ideologies and tactics, and splintering began. In July 1951 Shinsanbetsu voted to withdraw from Sohyo with half its original membership. The same year, the right wing of Sodomei, which controlled about a third of the membership, voted to leave Sohyo and reconstitute Sodomei as an independent federation. During 1952 dissensions within Sohyo grew as Communist influence among Sohyo unions increased and Sohyo turned more to political action. As a result, in 1953 the electrical workers, textile workers, maritime workers, teachers, auto workers, and railway workers withdrew. Soon afterward, in April 1954, the right-wing unions, including Sodomei, formed a new rival federation, Zenro (Zenkoku Rodo Kumiai Kaigi, or Congress of Japanese Trade Unions). Its membership favored the right-wing Socialists and sought membership in the International Confederation of Free Trade Unions (ICFTU). Only a third of the Sohyo unions joined the ICFTU.

Although it continues to be the leading labor federation in Japan, with 3 million members (see Table XI-4), Sohyo has been torn by internal dissension. In 1955 a "third-force, neutralist" group, the Ota faction, succeeded in ousting the anti-Western, pro-Soviet Takano faction from control of Sohyo. At its 1956 national convention, however, Sohyo rescinded its policy of non-cooperation with the Japanese Communist Party and declared that it had opened the way for the Communist Party to aid it in "joint struggles." In line with this change of attitude, Sohyo has become increasingly active in establishing ties with the Communist world. In mid-1957 the *Oriental Economist* noted that "the Sohyo 'spring offensive' this year was nothing more than a Communist Party offensive 'by

TABLE XI-4. MAJOR TRADE UNION FEDERATIONS IN JAPAN,  
MARCH 1957

	Number of Union Members (thousands)	Percent
Total	6,763	100.0
General Council of Japanese Trade Unions (Sohyo)	3,410	50.5
Congress of Trade Unions of Japan (Zenro)	782	10.6
General Federation of Japanese Trade Unions (Sodomei) (included in Zenro total above)	256	3.8
National Federation of Industrial Labor Organiza- tions (Shinsanbetsu)	38	0.6
National Congress of Industrial Unions (Sanbetsukaigi)	13	0.1
Others	2,583	38.2

*Note:* Unions which are members of two or more national organizations are counted in each organization; hence the total number of union members does not agree with the aggregate of separate organizations.

*Source:* Ministry of Labor, Tokyo.

proxy.'"<sup>44</sup> By late 1957 Communist domination of Sohyo was too apparent to leave any doubt.

The national federations, then, at first Sanbetsu and Sodomei, more recently Sohyo and Zenro, are but loose groupings of unions, reflecting ideological and tactical differences. The dominant national organization, at present Sohyo, has been anti-American and pro-Communist in outlook, and in Japanese national elections has concentrated on trying to defeat the conservatives and bring the Socialists to power. It has not succeeded in most of its undertakings, and, like its predecessors, it has given rise to a rival, Zenro, which opposes its political emphasis and many of its policies.

#### COUNTERVAILING FORCES AT WORK

Recent years have seen a polarization in Japanese political and economic life. There is now a right and a left in Japanese politics, but no center. The merger of the Liberal and Democratic parties in November 1955 produced a single conservative organization, the Liberal Democratic Party (Jiyu Minshuto). This was paralleled by the merger in October 1955 of the right and left-wing Socialists into the Social Democratic Party of Japan (Nihon Shakaito). While both

the conservative and the Socialist coalition are uneasy alliances which could break apart at any time, there appears to be more lasting consolidation and less ideological difference among the conservatives than between the right and left-wing Socialists.

On the economic front, the first half of the past decade saw the business group weakened and buffeted about, while labor was rapidly organized and unionism encouraged and strengthened. The last half decade has seen the process reversed. The authority of business management has been restored. Business combinations and alliances are growing. Capital investment is mounting, profits have risen, and output has expanded greatly. The relative position of labor has been weakened, though real wages have continued to rise and fringe benefits are numerous. On a local level, unions have about held their own but on a national level their federations have achieved nothing beyond what was given to them by the Occupation. They have been fighting defensive actions while their energies have been sapped by ideological differences and tactical bickerings.

The businessmen, of course, back the conservative party, chiefly with funds. Labor, on the whole, backs the Socialist party. Since labor is more numerous than business, why does the conservative party carry elections most of the time? The answer seems to be that in addition to business managers, former landlords, and wealthy persons, the conservatives have managed to gain wide support among farmers and in the ranks of small business. It is apparently the votes of the agricultural and small business communities which keep them in power. On the whole, the Socialists have made little headway with either of these two key groups. Should either or both, at some point, transfer their political allegiance, the balance of power in Japan would shift from right to left. Thus the drive of the national labor organizations for political power, a drive which did not succeed even when business was weakest, does not seem likely to meet with success so long as industrial output, foreign trade, prices, and profits remain high in Japan. A setback in world business and trade, on the other hand, with a resultant recession in Japan, might by its economic impact on farmers and small businessmen in Japan cause them to transfer their allegiance to the left. There is thus an important link between the level of world production and trade and the balance of political and economic forces in Japan.

## XII

### The Outlook

"Today Japan is confined once again to her home islands, and the pressure of her population is now far greater than it was prior to World War II. She must import a substantial portion of her food and raw materials, yet she is cut off from many of her former sources of supply. In the long run her situation is unstable in the extreme, and it is highly likely that serious trouble lies ahead. The Japanese now express the desire to live in peace with other nations, but as time goes on and the pressures become still more intense, it is likely that they will attempt again to extend their area to the point where they can attain some measure of self-sufficiency."

—HARRISON BROWN in "The Challenge of Man's Future."<sup>1</sup>

THE JAPANESE economy is much like the Japanese language—far too involved and complicated to fit any one set of conclusions, just as some of the categories of the language are too rich in meaning and too varied to be limited to just a simple set of terms.

Any Westerner must be startled when he first learns that the Japanese language has twenty or more words for the English "I" and that native speakers carefully distinguish among all of them. There was a special "I" for the exclusive use of the Emperor. The first person singular is different for men and women. In speaking to friends a man uses *boku* for "I," but in the case of very close friends *ore*, which is more abrupt. In addressing a stranger, formality decrees that the word *watakushi* is used for "I," but as a degree of friendliness develops the syllable *ku* is dropped to make it *watashi*. There are other words for "I" for special occasions, such as *wagahai*, *sessha*, *jibun*, and *shosei*.<sup>2</sup>

There are almost as many ways of looking at Japan's economy. One can be enthusiastic at the achievements; one can be appalled at

the problems; one can marvel that the Japanese have accomplished so much with so little; one can attempt to peer into the future, as does Harrison Brown, with misgivings and forebodings. Or one can reason that if the Japanese were able to emerge with restored economic vigor from the despair of defeat and the overwhelming difficulties of the postwar decade, few future problems seem likely to pose similar challenges. Each shift of the kaleidoscope produces a new and interesting view.

The plus signs in the economy are many. There is the amazing recovery, the fact that industrial output is now more than double the prewar level, that real income and real wages are higher than at any previous time in Japanese history, that the Japanese people, 90 million of them, enjoy a per capita income or standard of living about a fifth higher than the prewar (1934-36) level. Although low compared with Western standards, Japan as the leading industrial country in Asia has the highest living standard of all the countries of the region. With an abundance of skilled labor, talented management, a stable government, a high rate of capital formation, and a thrifty and industrious population, Japan possesses a dynamic national energy and a will to rise and persevere which not even defeat and conquest apparently can extinguish.

As one group of American experts who visited Japan observed:

The Japanese economy is a dynamic growing economy. In the little more than a decade since the end of the war, a phenomenal recovery has been achieved. . . . Japan has an industrial plant that rates her as one of the leading industrial nations of the world. She has industrious and skilled manpower; and of crucial importance in the modern world, Japan has well developed managerial arts and a large class of technicians and leaders skilled in the administration and management of affairs, public and private. The Japanese economy is one of the richly productive economies of the world, and one of great promise for the Japanese people and for the world at large. Output per capita has more than kept pace with the rapid population growth of the postwar years. The continued pace of scientific and technological advance assures a continuation of advancing output per capita.<sup>3</sup>

Thus on the bright side of the spectrum there appears a modern industrial nation of great vitality with growing output and increasing per capita productivity on the part of an alert and efficient labor force.

On the darker side there is the population-land-resources problem, the employment problem, the agricultural problem, the production cost problem, and, most crucial, the trade problem. As we have seen, Japan has the greatest density of population per arable acre of any country in the world. While the rate of population increase has slowed, the rise in absolute numbers, which is expected to carry the total to 100 million by 1970, stirs grave concerns about employment, food supply, and political stability. Over the coming decade Japan will have to find employment for 7 to 8 million new entrants to the labor force. This is in addition to all those presently underemployed in agriculture or petty trade: those who are working a few hours a week at some uneconomic and unrewarding service activity; the unpaid family workers who would seek paid employment if they thought there was the slightest prospect of securing it. The manufacturing sector of Japanese industry will have to expand sufficiently over the coming decade to absorb the new entrants, since agriculture and commerce and services seem to have reached the point of saturation.

In order to expand industrial production, Japan will have to increase its imports, since it has few natural resources and is heavily dependent on imported raw materials and foodstuffs. To earn the exchange to pay for these imports, Japan will have to expand its exports substantially. Will this be possible in a protectionist world of trade barriers, import quotas, and exchange controls? And even if markets were open in which Japan could sell additional goods, will its prices be competitive or will lower-cost producers like West Germany and the United States undersell Japan in foreign markets? Is Japan a marginal supplier in world markets, as is often alleged, and if so what will be the effect on Japan of any slowdown in the rate of growth of world trade?

While Japanese exports have risen substantially in recent years (1956 showed a 19 percent gain over 1955 and was more than double the 1953 level), they have not regained the prewar level, and furthermore imports have risen even more sharply (1956 showed a 31 percent increase over 1955). Japan's export volume in 1956 was 86 percent of the prewar (1931-36) average, while import volume surpassed the prewar average by 14 percent. Basically what this means is that taking into account both the large increase in total world trade over the last decade and the considerable rise in Japa-

nese population, Japan is only somewhat beyond the halfway mark in restoring its position in international trade.

The vast postwar growth in the Japanese domestic market, largely the result of improved levels of real income for the working and farm populations, and the extensive rehabilitation of industry have, oddly enough, had an adverse effect on the restoration of Japan's world trade position.<sup>4</sup> The expansion of the domestic market in the face of limited natural resources has necessitated a constantly growing volume of imports. On the other hand, the greater attractiveness and profitability of the domestic market has greatly eased the pressure to export. The growth of prosperity in Japan seems inevitably to set in motion forces which tend to widen the trade gap. When, as a result, the payments situation becomes acute, as it did in 1953 and again in 1957, the authorities are forced to step in and take measures to limit the domestic expansion. Temporarily, at least, this limits the industrial growth which is essential if employment opportunities are to be found for a growing labor force. If a domestic boom in Japan causes the rate of increase of imports to run ahead of the rate of increase in industrial production, and this in turn exceeds the rate of increase in exports, as has now happened on two recent occasions, can industrial expansion in Japan be sustained?

Clearly there are, if not minus signs, a significant number of question marks which give pause and concern to one attempting to assess the economic outlook for Japan. Can Japanese skill and ingenuity surmount the obstacles? One recalls prewar stories of Japanese ingenuity—of Japanese selling bottled beer in Germany for less than the German brewers paid for empty bottles and of a thriving Japanese industry, the reproduction of old American antique furniture. There is also the priceless tale about the astonishment of Japanese citizens who purchased boxes of matches originally intended for sale in China and found to their amazement that the words "Down With Japan" were inscribed upon the covers.<sup>5</sup>

The Japanese are, of course, highly adaptable. The ability to weather a storm, to bide one's time, to accept disappointments, to make the best of past mistakes, to capitalize on every opportunity no matter how small, are arts practiced nowhere more skillfully than in Japan. The ingenuity so often apparent in the past will continue to be applied to Japan's national advantage. The hostility of occupied and devastated countries is giving way, by skillful reparations

agreements, to fruitful investment opportunities. A complex industrial machine is being enlarged and modernized without any loss of national sovereignty or of indigenous corporate control. The needs of underdeveloped countries for technical assistance provide opportunities for increased sales of Japanese capital goods and also for Japanese emigration, and these opportunities are being exploited. Brazil is an example of a country that has welcomed the introduction of Japanese equipment, enterprises, and emigrants. Trade possibilities are being sought out and developed all over the world. Seldom is a chance overlooked. Selling textiles to British colonies and possessions may be like carrying coals to Newcastle but the Japanese have managed to do it. Minor opportunities for investment, overlooked by foreign capital, or not of sufficient interest, have attracted Japanese attention in Central and South America and in South and Southeast Asia.<sup>6</sup>

Apparently the Japanese have learned a good deal from the balance of payments difficulties which they encountered as a result of the domestic consumption boom of 1953 and the domestic investment boom of 1956. In both cases warning signals in the form of rising commodity prices, an increasingly unfavorable trade balance, and declining foreign exchange reserves were ignored for a time, until it became apparent that a domestic expansion, whether in consumption or in investment, which ran ahead of export expansion inevitably brought into play adverse factors which simply could not be overlooked. The links between short-term economic stability and long-term economic growth became clear. The Japanese now seem to recognize and accept the need for a delicate economic balance in order to achieve both objectives at the same time. They now appear to realize how essential it is, in an economy that is so dependent on foreign markets and foreign sources of raw materials, not to let the rate of investment run too far ahead of the rate of savings. And most important, they have shown great courage in applying necessary monetary restraints when domestic expansion leads to a sharp deterioration in the external accounts.

It is reassuring to see that the Japanese now recognize that any failure to link short-term measures to improve their international payments position with their long-range policy for balanced growth will inevitably curtail that growth. Encouraging also are statements



such as the following, found in the 1956-57 report of the Economic Planning Agency:

Maintenance of a high rate of investment and a steady economic expansion based thereon are the paramount long-range targets of Japan and people's aspirations. However, investments must not be allowed to exceed the limit of the nation's capacity for earning foreign exchange at a given time for domestic balance and international balance are both sides of the shield. Investments made beyond the level of domestic savings are bound to induce large amounts of imports over and above the nation's international strength. There is no short cut to economic development. An economic expansion carried out beyond the actual economic strength of the nation is bound to cause inflation and deterioration of her international accounts forcing a restraint on the speed of economic growth.<sup>7</sup>

During the fiscal year 1956-57 the rate of export expansion was 20 percent and domestic consumption increased by 8 percent, but investment in equipment rose by 80 percent and investment in inventory by 40 percent. The result was the balance of payments crisis of early 1957 and the reimposition of a policy of restraint, similar to that of late 1953 and early 1954. Thus in two periods when domestic expansion was allowed to run far ahead of export expansion, the resulting vast increase in imports and the sharp decline in foreign exchange reserves necessitated a policy of restraint and curtailment. It is therefore encouraging to read in an official Japanese publication that:

The objective of the over-all restrictive policy lies in reducing import by controlling domestic demand and creating an export pressure for diverting the goods hitherto into the domestic market to the overseas market. Such a restraint on demand will also contribute to the reduction of production cost and commodity prices. A disinflationary policy is unpopular to everybody but it is absolutely necessary for the present economic conditions. If this program is carried out smoothly with a firm determination and with people's support, Japanese economy will regain a foothold for development. Only on the foundation of a stable balance of international accounts can we expect an expansion of investment, economic growth and improvement of the standard of living.<sup>8</sup>

It is important to remember, however, that Japan's capacity for independent economic action is circumscribed by the great power struggle of our times. Though it has regained independence, Japan

finds itself between the pressures of the Communist bloc, on the one hand, and the free world on the other. The London *Economist* put it neatly when it declared:

No Japanese Prime Minister, whatever his faction or party, has much room for manoeuvre in foreign policy. Whether they like it or not, the Japanese are dependent on the United States for economic and military protection. Most of them dislike it. They resent their indebtedness to the Americans. They are impressed by Russian hints that an American evacuation of Okinawa might induce Russia to give back the Southern Kuriles. Above all, they remember the atom bomb, and they fear that if Japan remains the American forward base in the Pacific it will be an obvious target for a hydrogen bomb. Between the emotion of the electorate on the one hand, and the hard economic facts on the other, only a limited political mobility is possible. Japan can hope to recover its importance in Asia, and ensure its political future, only by the "economic diplomacy" of which so much has been heard lately. Its purpose is to convince both industrialists and diplomats that only through trade relations can the "face" lost in the last war be recovered and Japan established as the leading power in the non-communist East. This is Japan's natural role, provided it is filled, this time, by peaceful commercial means.<sup>9</sup>

Viewing this relative lack of mobility in very broad economic terms, the likelihood of economic moves by the two leading Japanese power groups—conservatives and socialists—can be postulated.<sup>10</sup> The conservatives must, of necessity, continue the current policy of building upon the present strong economic ties between Japan and the free world. Apart from expanding and increasing these ties by economic diplomacy they have few alternatives. In fact, they may need no alternative because the current policy is their policy and it has worked rather well. If, in an occasional year, economic diplomacy fails to secure balanced trade or balanced payments, they have only to fall back upon the good offices of the leading power in the free world for support and sustenance. That this support must be forthcoming on such occasions is as clear in Tokyo as it is in Washington.

One reason for the lack of any major alternative is that the conservatives are unlikely to want to see, even if it were an economic possibility, a large build-up of trade with the Communist bloc. It would make their regime too vulnerable to an economic buffeting by

world Communist manipulation. While they give lip service in Japan to the need for increased trade with Communist China in order to mollify some elements of public opinion, they do not, in fact, look for any large increase. Nor indeed is it necessary. As long as the level of world economic activity continues to improve or even remains stable, and as long as the United States continues to underwrite any gap in Japan's balance of payments, there is no real need to do more than continue intensive efforts to reduce costs and improve equipment and techniques at home, and to expand exports within the present framework. In due course, a steady expansion of world trade, with Japan securing its appropriate share, should render the Japanese economy viable and release it from any dependence on U.S. support.

The chief threat to continued conservative domination in Japan is mainly external rather than internal. A world recession, leading to declining farm prices in Japan, to a loss of exports and therefore to increased unemployment and persistent balance of payments difficulties, might cause sufficient unrest to unseat the conservatives. In the first phases of such a development, the conservatives are likely to be pushed into adopting some of the welfare measures, such as expanded public works, advocated by the Socialists. Whether this move toward the center by the conservatives would be sufficient to enable them to retain popular support would depend to a large degree on the severity of the world recession. If it were mild, this stealing of Socialist thunder might do the trick. If it were severe, the conservatives might well be driven to the extreme right in an effort to retain power.

The advent of a rightist regime under such circumstances might see the liquidation of many welfare measures, of trade unions, and of much of the trade with the Communist bloc. Seeking financial support from the West, such a regime would probably attempt to reestablish the external economic relations of Japan much as they are today. In its internal policies there would perhaps be a much greater degree of government control of economic activity, as in the case of Spain and Portugal, than is now true of Japan.

Were the Socialists to obtain power, they would be likely to pursue a third-force, neutralist policy in foreign relations<sup>11</sup> and in the economic sphere to adopt measures of nationalization and social welfare. In trade matters they could be expected to refuse to adhere

to any restrictions on trade with the Communist bloc. After a short while the Socialists might have a very difficult time. The most serious probable economic consequence of Socialist policies would be the effect of various nationalization and social welfare measures upon Japanese costs of production and hence on the price structure. Most union demands for wage increases would probably meet with little opposition. This, and the additional welfare measures, might make Japanese exports overpriced in world markets and thus bring on the familiar train of events attendant upon the decline in the volume of exports—foreign exchange drain, balance of payments crisis, reduction of imports, rising unemployment, small business failures, etc.

On basic policy matters, after an initial honeymoon period, the Socialist left and right wings might soon part company. The sober responsibilities of office might lead right-wing Socialist elements to take a more compromising, centralist position so as not to disrupt unduly business and economic relationships. The insistence of the left, however, on rigid, doctrinaire Socialist programs might bring a parting of the ways.

If, in the resulting crisis, the left Socialists or Communists prevailed, their regime would be likely to undertake a vast reorientation of the whole focus of the Japanese economy in an attempt to link it with Communist China and the Soviet Union. Trade with the West would decline rapidly and the standard of living in Japan would fall. That the populace, despite mounting discontent, could do anything about this trend of affairs is doubtful in the face of experience elsewhere with the ability of Communist dictatorships to hold on once in power. If the Communists ever come into power in Japan it is likely to be only by taking over from a collapsing Socialist regime, or as a result of direct Soviet intervention in Japanese affairs. It is most unlikely that they would ever be voted into power in a free election. They are not at present a significant influence in the Japanese economic or political situation.

The recent polarization of Japanese politics gives the Japanese people a clear economic choice. Either they must continue the present conservative regime and free enterprise capitalism or the only alternative choice is socialism, in either its democratic or its totalitarian variety. Adherence to conservatism has brought them a striking recovery, more than a doubling of production, and a substantial

rise in real income and living standards. While the Japanese are not living in opulence or luxury, they are better off than at any time in the past.

That the Socialists could have done as well is doubtful. This view, too, is based on economic considerations. Their social expenditures, their lack of resistance to excessive wage demands (those beyond increases in productivity), and their unwillingness to pursue tight money or austerity programs would probably have produced an inflation substantially in excess of that which actually occurred in postwar Japan. With exports priced out of world markets and foreign exchange reserves depleted, faced with a balance of payments crisis and the need to curtail imports, unwilling to face up to the political consequences of a necessary corrective policy, a Socialist regime would have fallen, or else living standards would have dropped. Or had it been willing, however reluctantly, to undertake a necessary austerity program, it would have been discredited politically, for its measures would initially have hurt its own supporters most and their allegiance would have been lost.

It is the nature of the Japanese economy and its great dependence on external economic factors which creates this dilemma for the Japanese Socialists. Not having been in office for most of the postwar period, however, and not having had to bear the onus of restrictive policies except for one brief, now forgotten episode, they are able to offer vast promises for the future as they edge closer to power. It is perhaps unfortunate for the future of Japanese-American relations that both officially and unofficially we have paid so little attention to the Japanese Socialists. The young people in Japan tend to vote Socialist and in five to ten years this could mean a Socialist regime even in the absence of a recession. Many young Japanese, and especially young Japanese Socialists, are anti-American through a combination of ignorance and propaganda. They badly need wider contacts with the West and observation of Western experience and development. United States programs, formal and informal, should be shaped to this end.

The Japanese conservatives, on the other hand, know the West better. Although they receive credit for economic recovery, they must take the blame for occasional austerity, bear the brunt of anti-Americanism, and carry the burden of acceptance of restrictions on the China trade. They find it difficult to match the Socialist promises

for the future since they can realistically offer only the slow gains in real income and real wages which come from increased output and rising productivity. And even this modest hope rests only on a condition—that the level of world trade continues to rise and that world economic prosperity and stability are maintained. For if they are not, then the Japanese economy will be in trouble and so will the Japanese conservative party.

The outlook for the Japanese over the short term, then, depends on trends in the world economy. To the extent that these are determined or influenced by American policies we have a commensurately grave responsibility. The maintenance of a liberal trade policy by the United States, the adoption of any and all measures to ensure the continued growth of world trade, the encouragement of economic development and stable economic growth, sustained world prosperity, and the containment of inflation both at home and abroad, are essential not only to Japan's economic future but to our own. If the blindness of the protectionists and isolationists should prevail and the achievement of these objectives be thwarted, then we shall perhaps pay a heavy price for our complacency and acquiescence. So great will be the damage, so final the changes abroad, and so complete our own isolation, that it might well lie beyond the power of any future American generation to rectify.

# Appendix

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- Kobe Economic and Business Review* (fortnightly), Kobe.
- Kyoto University Economic Review* (quarterly), Kyoto.
- Monthly Bulletin of Statistics*, Bureau of Statistics, Office of the Prime Minister, Tokyo.
- Monthly Circular*, Mitsubishi Economic Research Institute, Tokyo.
- Monthly Economic Report*, Economic Planning Agency, Japanese Government.
- Monthly Economic Review*, Bank of Japan, Tokyo.
- Monthly Report on Business Conditions in Japan*, The Dai-Ichi Bank, Ltd., Tokyo.
- Monthly Report on National Income*, National Income Section, Research Division, Economic Planning Agency, Japanese Government.
- Monthly Return of the Foreign Trade of Japan* (in Japanese and English), Ministry of Finance, Tokyo; issued monthly but December issue each year is also the annual January-December issue, providing data for the year.
- Monthly Review*, The Mitsui Bank, Ltd., Tokyo.
- News Survey*, Bank of Japan (fortnightly), Tokyo.
- Nihon Keizai Shimbun* (The Japan Economist) (daily), Tokyo.
- Oriental Economist* (monthly), Tokyo.
- Quarterly Bulletin of Financial Statistics*, Research Section, Minister's Secretariat, Ministry of Finance, Tokyo.
- Sumitomo Bank Review* (quarterly), Osaka.
- Survey of Japanese Finance and Industry* (quarterly), Industrial Bank of Japan, Tokyo.
- Toyo Keizai Shimbun* (The Oriental Economist) (weekly), Tokyo.
- Weekly Review of Economic Affairs in Japan*, Bank of Tokyo.

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- Foreign Trade of Japan*, White Paper issued by Ministry of International Trade and Industry, Tokyo.

- Japan Economic Yearbook*, issued by *The Oriental Economist*, Tokyo; also in Japanese, *Nippon Keizai Nenpo*, Toyo Keizai Shimpō-Sha.
- Japan Labor Yearbook*, Ministry of Labor, Tokyo.
- Japan Statistical Yearbook*, Prime Minister's Office, Tokyo.
- Japanese Industry*, The Foreign Capital Research Society, Bank of Japan, Tokyo.

# Notes

## CHAPTER I

1. One might perhaps also include Australia, New Zealand, and British Borneo. Geographically these countries are part of free Asia, although, of course, Australians and New Zealanders prefer not to be regarded as Asians.

2. *Statistical Papers*, United Nations, Population and Vital Statistics Reports, Series A, Vol. IX, No. 3, July 1957.

3. See *The Development of Asia*, Background Material Prepared by the Staff of the International Bank for Reconstruction and Development for the Monetary Conference of the American Bankers Association and Columbia University, at Arden House, March 17-19, 1954.

4. Including Communist China's 618 million but excluding Yugoslavia's 18 million.

5. *Agriculture in Asia and the Far East: Development and Outlook*, U.N. Food and Agricultural Organization, Rome, October 1953.

6. *Sources of Iron Ore in Asia*, General Headquarters, Supreme Commander for the Allied Powers, Tokyo (hereafter abbreviated as GHQ, SCAP), Natural Resources Section, Report No. 154, March 1952, p. 176.

7. *Iron Ore Resources of Japan*, GHQ, SCAP, Natural Resources Section, Report No. 69, February 26, 1947.

8. *Japanese Mineral Resources*, GHQ, SCAP, Natural Resources Section, Report No. 141, March 1951.

9. See Edward A. Ackerman, *Japan's Natural Resources*, University of Chicago Press, 1953, p. 303.

10. Madagascar is also a source of graphite.

11. *Partners in Progress*, A Report to the President by the International Development Advisory Board, Washington, March 1951.

12. See Part I of *Nippon Keizai Nenpo* (Japan Economic Yearbook), Toyo Keizai Shimpō-Sha, Tokyo, 1957, p. 288.

13. *Statistical Yearbook, 1956*, United Nations.

14. Before World War II Japan had 12.2 million spindles; India (including Pakistan) had 9.5 million.

15. Computed from *Economic Survey of Asia and the Far East 1956*, U.N. Economic Commission for Asia and the Far East, Bangkok (hereafter abbreviated as ECAFE), 1957; *Economic Statistics of Japan, 1956*, Bank of Japan, Tokyo, 1957; and *Monthly Bulletin of Statistics*, United Nations, July 1957.

16. See William W. Lockwood, *The Economic Development of Japan*, Princeton University Press, 1954.

17. "Steady Improvement of People's Living," *Monthly Report on Business Conditions in Japan*, Dai-Ichi Bank, Vol. IV, No. 5, October 1957, p. 2.

18. *Direction of International Trade*, United Nations, 1956.

19. For an earlier detailed analysis see *A Study of Trade between Asia and Europe*, United Nations, Department of Economic Affairs, Geneva, November 1953 (E/CN.11/373).

20. See *The Strategic Trade Control System, 1948-1956*, International Cooperation Administration, Ninth Annual Report to Congress under the Mutual Defense Assistance Control Act of 1951, Washington, 1956, Appendix E, Statistical Tables 3a and 3b, pp. 94-97.

21. *A Statistical Survey of Trade Between Japan and Asian Countries*, Ministry of Foreign Affairs, Tokyo, 1956, p. 8, based on statistics from *Annual Return of the Foreign Trade of Japan for 1956*, Ministry of Finance, Tokyo, 1957.

## CHAPTER II

1. Dr. Ralph J. Watkins notes, however, that: "Perhaps a more meaningful comparison is to say that the Japanese islands comprise an area just a little larger than the combined area of the six contiguous states of New York, New Jersey, Pennsylvania, Delaware, Maryland and West Virginia, but have a population 2.4 times the combined population of those six states. The density of population—people per square mile—in Japan is about 2.3 times that of the six states combined but slightly less than twice that of New York State and actually less than that of New Jersey. Yes, New Jersey has about 680 people per square mile (July 1955); Japan about 630." Ralph J. Watkins, "Japan's Economy: Bright Spot or Trouble Spot?," *Dun's Review*, January 1957.

2. "Japan—Its Problems, Progress and Responsibilities," address by Mr. Joseph M. Dodge before the 48th Annual Banquet of the American Institute of Banking, New York, February 2, 1952, p. 5.

3. See "Perspective on Japan: 1957," *Financial Post*, Toronto, August 24, 1957.

4. *General Survey of the Japanese Economy*, Ministry of Finance, Tokyo, September 1, 1957, p. 34.

5. See *Japan Economic Yearbook, 1957*, issued by *The Oriental Economist*, Tokyo, 1957.

6. *Economic Survey of Japan, 1956-1957*, Economic Planning Agency, Tokyo, July 1957, p. 2.

7. *International Financial Statistics*, International Monetary Fund, Washington, May 1957.

8. Speech before the Japanese Chamber of Commerce of New York at a luncheon meeting for Mr. Hisato Ichimada, then Japanese Finance Minister, on October 2, 1956.

9. Government and Relief in Occupied Areas (GARIOA) and Emergency Relief in Occupied Areas (EROA).

10. The original U.S. presidential policy statement on Japan made abundantly clear that the responsibility for economic reconstruction was to be left primarily in the hands of the Japanese people and their government. The



statement, made public on September 22, 1945, declared in part: "The policies of Japan have brought down upon the people great economic destruction and confronted them with the prospect of economic difficulty and suffering. The plight of Japan is the direct outcome of its own behavior and the Allies will not undertake the burden of repairing the damage." (Part IV, Section 3.) See Hugh Borton, *Japan's Modern Century*, Ronald, New York, 1955, pp. 407-408; and *Political Reorientation of Japan, September 1945 to September 1948*, GHQ, SCAP, 2 vols., Government Printing Office, Washington, 1949.

11. See *Mission and Accomplishments of the Supreme Commander for the Allied Powers in the Economic, Scientific, and Natural Resources Fields*, GHQ, SCAP, April 28, 1952 (ESS/P&S.D.).

12. See "Postwar Economic Growth and Capital Accumulation in Japan," *Fuji Bank Bulletin*, Vol. VII, No. 3, September 1956.

13. See Takeo Suzuki, "Financial Policy and the Growth of the Japanese Economy," *Asian Affairs*, Asia Kyokai, Tokyo, Vol. 1, No. 2, June 1956.

14. See *National Income White Paper*, Economic Planning Agency, Tokyo, 1957.

15. For further details see "Economic Growth Rate" and "Japanese Industry in High Gear," both in *The Oriental Economist*, Vol. XXV, No. 561, July 1957.

16. *Economic Survey of Japan (1955-1956)*, Economic Planning Agency, Tokyo, 1956, pp. 23-24.

17. *General Survey of the Japanese Economy*, op. cit., p. 4.

18. Address before the Japanese Chamber of Commerce, New York, October 2, 1956.

19. "Peaceful Co-prosperity," *The Economist*, London, March 16, 1957, pp. 891-92.

20. "National Income in 1956," *The Oriental Economist*, July 1957, p. 345.

21. *Economic Survey of Japan (1956-1957)*, op. cit., p. 16.

### CHAPTER III

1. Henry H. Villard, "Some Notes on Population and Living Levels," *The Review of Economics and Statistics*, Vol. XXXVII, No. 2, May 1955, p. 195.

2. See Colin Clark, *The Conditions of Economic Progress*, 3rd ed., Macmillan, London, 1957, p. 500.

3. For a detailed treatment of Japan's population problem see Ayanori Okasaki, *Nippon Jinko Zusetsu* (Graphical Exposition of Japan's Population), Toyo Keizai Shimpo-Sha, Tokyo, 1955.

4. The law was revised in 1952. Under the 1948 Act it was necessary to apply to the Eugenics Protection Examination Committee for approval in order to perform an induced abortion. This requirement was eliminated in the 1952 Act.

5. See *Population Problems of Postwar Japan*, Ministry of Welfare, Institute of Population Problems, Tokyo, March 1956. It should be noted that the figures on abortions are only those reported to the Ministry of Welfare in accordance with the law and do not include the large number of cases of un-

reported illegal abortion. See also Shio Sakanishi, "Women's Position and the Family System," in *Japan Since Recovery of Independence: Annals of the American Academy of Political and Social Science*, November 1956, p. 137.

6. *Economic Survey of Asia and the Far East, 1956*, ECAFE, February 1957, p. 118.

7. A hectare is a unit of area in the metric system equal to 2.45 acres. The Japanese unit of land measure, the *cho*, equals one hectare. One *cho* is subdivided into 10 *tan*. Therefore one *tan* equals 0.245 acres.

8. See *Japan Economic Yearbook, 1956*, issued by Toyo Keizai Shimpo-Sha, Tokyo, 1956, pp. 43-50.

9. For a detailed account of the land reform see *Nochi Kaikaku Tenmatsu Gaiyo* (Summary of the Facts of the Land Reform), Ministry of Agriculture and Forestry, Land Reform Record Committee, Tokyo, 1951; also Yasuo Kondo, *Nochi Kaikaku No Shomondai* (An Account of the Land Reform Problem), published by Yuhi-Kaku, Tokyo, 1951. This work won the Publication Prize of the Mainichi Press for that year. See also *Farm Tenancy in Japan*, GHQ, SCAP, Natural Resources Section, Report No. 79, June 25, 1947, and *Japanese Land Reform Program*, GHQ, SCAP, Natural Resources Section, Report No. 127, March 15, 1950.

10. David E. Lindstrom, "Outlook for Land Reform in Japan," *Contemporary Japan*, Tokyo, Vol. XXIV, Nos. 1-3, 1956, p. 88.

11. *Extraordinary Basic Farm Survey*, taken as of February 10, 1955, Ministry of Agriculture and Forestry, Tokyo, 1956.

12. See Seiichi Tobata, *Japan's Agriculture*, Ministry of Foreign Affairs, Tokyo, 1956, p. 13.

13. Ayanori Okasaki, *Japan's Population Problems*, Ministry of Foreign Affairs, Tokyo, 1956, p. 11.

14. See John D. Eyre, "Post-Occupation Conditions in Rural Japan," in *Japan Since Recovery of Independence*, op. cit., p. 119. In another context, however, Eyre states (p. 118): "Out of the total farm households, slightly more than 3,000,000 or about one-half, spend more time and labor working off the farm than in agriculture. About 70 percent of farm households operating less than one acre are classified in this category of part-time farmers. Thus, about one-half of the farm population has gained little social or economic benefit from the land reform and, by operating in a depressed economic state without hope of obtaining more land, creates serious village social and economic problems." See also Nobuo Danno, "Japanese Agriculture after the Postwar Land Reform," *Japan Quarterly*, Vol. 2, No. 1, January-March 1955.

15. See *The Employment Pattern of Japanese Farming*, Ministry of Agriculture and Forestry, Tokyo, 1956. Farm household membership in Japan is reported as:

	Total (thousands)	Population per Household
August 1, 1947	36,916	6.07
February 1, 1950	37,813	6.12
February 1, 1955	36,469	6.03

The decrease of 1.3 million between 1950 and 1955 is due in part to a decrease of 133,000 farm households, which accounts for 790,000 persons ( $133,000 \times 6$ ). The remaining 550,000 persons apparently moved out of existing farm households to find employment in expanding industry and services, or in self-employment.

16. *Mission and Accomplishments of the Supreme Commander for the Allied Powers in the Economic, Scientific and Natural Resources Fields*, GHQ, SCAP, April 28, 1952 (ESS/P&S.D.), p. 58.

17. For references to accounts of these plans see *Nogyo Keizai Kankei Bunken Shu* (Bibliography of Materials Relating to Agricultural Economics), issued annually since 1949 by Ministry of Agriculture and Forestry, Bureau of Agricultural Economics, Economic Studies Office, Tokyo.

18. Bruce F. Johnston, "Agricultural Productivity and Economic Development in Japan," *Journal of Political Economy*, Vol. LIX, No. 6, December 1951.

19. "Orientation of Farming," *The Oriental Economist*, Vol. XXV, No. 563, p. 463.

20. Law No. 252 of 1953. For further details see "Development of Agriculture" in "Survey of Economic Conditions in Japan," *Monthly Circular*, Mitsubishi Economic Research Institute, Tokyo (hereafter cited as *Mitsubishi Monthly Circular*), January 1956, p. 48.

21. See T. Yamaguchi, "Problems Surrounding Japanese Fishery," in *Mitsubishi Monthly Circular*, December 1955, pp. 14-17.

22. To feed a population of 100 million, Professor Aki estimates that 88 million *koku* of rice will be needed annually, 28 million *koku* of wheat, 20 million *koku* of barley, 11.7 million *koku* of milk, 13,300 million eggs, and 550,000 tons of meat. (One *koku* equals 4.96 bushels or 47.65 U.S. gallons.) In 1955 Japan produced 79 million *koku* of rice, 10.7 million *koku* of wheat, 19.5 million *koku* of barley, 6,100 million eggs, and 180,000 tons of meat. See Koichi Aki, *Nippon Keizai No Joshiki* (The Basic Facts of Japan's Economy), Shincho-Sha, Tokyo, 1956.

23. For a more detailed discussion see "Excess Farm Population," *The Oriental Economist*, Vol. XXIV, No. 549, July 1956, pp. 322-25.

#### CHAPTER IV

1. Estimates of "disguised unemployment" in agriculture by the Government Council on Employment Policy were 4.2 million in 1952, 4.1 million in 1953, and 3.5 million in 1954.

2. Estimates of Ayanori Okasaki, Director of the Institute of Population Problems, Japanese Ministry of Welfare. See *Japan's Population Problems*, Ministry of Foreign Affairs, Tokyo, 1956, pp. 11 and 12. Okasaki places additions to the labor force each year at 900,000. He declares: "It is estimated that the labor force population in 1955 totaled 41,140,000 and will increase each year until it reaches 50,540,000 in 1965. In other words, the increase in the labor force population in the coming ten years totals 9,390,000, or an average increase of more than 900,000 each year. How Japan's industrial

economy, which already had a latent unemployed population of several millions on its hands, will provide employment opportunities to the 900,000 yearly additions to the labor force population is a most serious problem." *Ibid.*, p. 14.

3. *Japan As It Is Today*, Ministry of Foreign Affairs, Tokyo, 1956, p. 39.

4. Kazushi Ohkawa, "A Note on Long-Term Changes in the National Production of Japan," *Annals of the Hitotsubashi Academy*, Vol. III, No. 2, April 1953, pp. 164-78.

5. See *Labor Force Survey for 1956*, Prime Minister's Office, Statistics Bureau, Tokyo, 1957.

6. From Shigeto Tsuru and Kazushi Ohkawa, "Long-Term Changes in the National Product of Japan since 1878," in Milton Gilbert (ed.), *Income and Wealth*, Series III, International Association for Research in Income and Wealth, Bowes and Bowes, Cambridge, 1953, p. 39.

7. See Norman S. Buchanan and Howard S. Ellis, *Approaches to Economic Development*, Twentieth Century Fund, New York, 1955, p. 215.

8. See *National Income and National Economic Accounts of Japan, 1930-1956*, Economic Planning Agency, Research Division, National Income Section, Tokyo, November 1957.

9. Computed from Table II-1. See "National Income in 1955," *The Oriental Economist*, July 1956, pp. 325-27, and "National Income in 1956," *ibid.*, July 1957, pp. 343-45.

10. *Monthly Economic Report*, Economic Planning Agency, Tokyo, February 1957, p. 16. See also "Japanese Industry in High Gear," *The Oriental Economist*, July 1957, pp. 345-49.

11. For world industrial production see Special Table B, p. xiv, in *Monthly Bulletin of Statistics*, United Nations, October 1957; for Japan the 1937 index number for industrial production on a 1953 base is found in *Statistical Yearbook, 1956*, United Nations, Table 37, p. 120.

12. See Table 26, p. 36, of *General Survey of the Japanese Economy*, Ministry of Finance, Tokyo, September 1, 1957. The index number of plant capacity (March 1950 = 100) rose from 182.8 in March 1955 to 270.3 in March 1957, while the index of manufacturing output (1934-36 = 100) rose from 188.4 in March 1955 to 261.3 in March 1957.

13. See "Equipment Investment," *The Oriental Economist*, June 1956, p. 263; also "Japanese Industry in High Gear," *loc. cit.*, p. 346.

14. *Economic Survey of Japan, 1956-1957*, Economic Planning Agency, Tokyo, August 1957, p. 8.

15. See Harvey Leibenstein, *Economic Backwardness and Economic Growth: Studies in the Theory of Economic Development*, John Wiley, New York, 1957.

16. See Table 33, pp. 44-45, in *General Survey of the Japanese Economy*, *op. cit.*

17. See *Hompo Shuyo Kigyo Keiei Bunseki Chosa* (Analysis of Financial Statements of Main Industrial Corporations in Japan), Bank of Japan, Tokyo, 1957; also *Capital Procurement in Post-War Japanese Industry*, Mitsubishi Economic Research Institute, Tokyo, March 1957, pp. 3 and 7.

18. "Problems Surrounding the Normalization of the Japanese Economy," *Mitsubishi Monthly Circular*, May 1956, p. 22.

19. *Showa 30-nendo Nenji Keizai Hokoku* (Annual Economic Survey for Fiscal Year 1955), Economic Planning Agency, Tokyo, 1956, p. 70.

20. *The Oriental Economist*, August 1957, p. 403.

21. Somewhat similar arrangements have been concluded between Westinghouse Electric International Co. and Mitsubishi Electric Co.; International General Electric and Sumitomo Electric Industries, Ltd.; Union Carbide International Co. and Osaka Transformer Co., Ltd.; Western Electric and Tokyo Shibaura Electric Co.; Bendix Aviation Co. and Tokyo Keiki Seizosho Co., Ltd.; Westinghouse Air Brake Co. and Nippon Air Brake Co., Ltd.; United Aircraft and Mitsubishi Heavy Industries, Ltd.; Continental Motors and Fuji Motor Co., Ltd., E. I. DuPont and Mitsubishi Heavy Industries, Ltd.; American Cyanamid and Mitsubishi Chemical Machinery Mfg. Co. Ltd.; Allis Chalmers Co. and Kobe Steel Works; Yale and Towne and Kiichi Harada; Minneapolis-Honeywell Regulator Co. and Yamatake Instruments Co., Ltd.; Joy Manufacturing and Ishikawajima Heavy Industries Co., Ltd.; Continental Can and Toyo Can Mfg. Co.; E. I. DuPont and Toyo Rayon; Merck and Co. and Kyowa Fermentation Co.; American Cyanamid Co. and Sumitomo Chemical Industry Co., Ltd.; Dow Chemical and Nissan Chemical Industries, Ltd.; Interchemical Corp. and Toyo Ink Mfg. Co. Ltd.; St. Regis Paper Co. and Matsushita Electronics Corp.; Cluet, Peabody & Co. and Toyo and Kanegafuchi Spinning Companies; Pacific Mills and Fuji Spinning; Standard-Vacuum Oil Co. and Toa Nenryo Kogyo Co.; California Texas Oil Co., and Nippon Petroleum Refining Co.; Tidewater Oil and Mitsubishi Oil Co.; Armstrong Cork Co. and Toyo Rubber Industry Co.; Libby-Owens-Ford Glass Co. and Nippon Sheet Glass Co., Ltd.; and many others.

22. See "Technological Aid Requested for Nine Industries," *Japan Report*, Vol. II, No. 14, July 31, 1956, and "Industrial Know-How Needs Announced in New List," *ibid.*, Vol. II, No. 20, October 31, 1956.

23. Shigeto Tsuru, "Employment in Japan: Problems and Prospects," *Far Eastern Survey*, Vol. XXVI, No. 7, July 1957, p. 98.

24. Japan's labor force statistics usually classify as "employed" all persons having work for pay or profit (including unpaid family workers) for at least one hour during the survey week, and as "totally unemployed" persons having ability and will to work and seeking jobs but not working even for one hour during the survey week. See *Labor Force Survey of Japan*, Prime Minister's Office, Statistics Bureau, Tokyo, March 1956, pp. 3-4.

25. *Some Observations of Our Vice-President, Mr. J. Marc Gardner on His Recent Visit to Japan*, J. Henry Schroder Banking Corporation, New York, January 27, 1956, p. 3.

26. "Unemployment and Japan's Economy," *Fuji Bank Bulletin*, Vol. VI, No. 2, September 1955, p. 37.

27. See chapter on "Surplus Labor Population" in *Japan's Population Problems* by Ayanori Okasaki, Ministry of Foreign Affairs, Tokyo, 1956, p. 12.

28. "Employment in Japan," *The Oriental Economist*, Vol. XXIV, No. 544, February 1956, p. 61.

29. *Economic Survey of Japan, 1956-1957*, op. cit., p. 22.

30. The remaining 54 percent of the labor force consists of 24 percent self-employed and 30 percent family labor.

31. Obtained by subtracting from the non-agricultural labor force of 27.3 million the 7.5 million in wholesale and retail trade and finance, the 5.2 million in services, and the 1.2 million in government. See Table IV-8.

32. Torazo Ninagawa, *Chusho Kigyo Mondai No Kaiketsu* (The Solution of the Problems of Medium and Small-Scale Industries), Jiji Tsushinsha, Tokyo, 1950. See also "Structural Improvement in Industry in the World and in Japan," Mitsubishi *Monthly Circular*, No. 334, September 1957.

33. *Economic Survey of Japan, 1956-1957*, op. cit., p. 24.

34. "Employment in Japan," loc. cit., p. 102. The calculation is in 1955 prices.

35. The Economic Planning Agency noted: "During the past six years, the industrial output went up by 100 percent, whereas the imported raw materials increased by 134 percent, indicating that Japanese industry has a deep-rooted tendency toward higher dependence on imports." *Economic Survey of Japan, 1956-1957*, op. cit., p. 49.

#### CHAPTER V

1. See "Pattern of Manufacturing Activity," *The Oriental Economist*, Vol. XXIV, No. 546, April 1956, Table 5, p. 175.

2. "Value of Output by Industry," *Japan As It Is Today*, Ministry of Foreign Affairs, Tokyo, 1956, p. 59.

3. G. C. Allen, "Industrial Production and Productivity in Japan," *Westminster Bank Review*, London, August 1955, p. 2.

4. *General Survey of the Japanese Economy*, Ministry of Finance, Tokyo, September 1957, pp. 36-37.

5. Keizo Seiki, *The Cotton Industry of Japan*, Japan Society for the Promotion of Science, Tokyo, 1956, p. 277.

6. See *Japanese Economic Statistics*, Economic Planning Agency, Tokyo, No. 125, Part I, Industrial Production, January 1957, p. 13.

7. *Statistical Yearbook, 1956*, United Nations, p. 213.

8. See "Synthetic Fibre Production and Inter-Fibre Competition," Mitsubishi *Monthly Circular*, No. 304, March 1955, pp. 9-14, and "Rayon Filament and Staple," *The Oriental Economist*, Vol. XXIV, No. 548, June 1956, p. 281.

9. See "Production of Cotton Textile in 1956," *Monthly Report of the Japanese Cotton Spinning Industry*, All Japan Cotton Spinners Association, Osaka, March 1957.

10. See "Chemical Fibers Industry," *The Oriental Economist*, Vol. XXV, No. 564, October 1957.

11. See "Miti Warns Against Reckless Boost," *The Oriental Economist*, Vol. XXIV, No. 548, June 1956, p. 283.

12. See *The Textile Industry in Japan*, Report of a Visit by a Group of Three from the Canadian Textile Industry to Japan, Primary Textiles Institute, Toronto, 1956, p. 129.

13. "Japan's Five-Year Plan for the Demand and Supply of Textiles," *Survey of Japanese Finance and Industry*, Industrial Bank of Japan, Vol. VIII, No. 2, March/April 1956, pp. 5-11.

14. *Japan Economic Yearbook, 1956*, issued by *The Oriental Economist*, 1956, pp. 65-68.

15. *Japan Economic Yearbook, 1957*, issued by *The Oriental Economist*, 1957, p. 73.

16. *The Textile Industry in Japan*, op. cit., p. 47.

17. *Working Conditions in the Japanese Textile Industry*, Ministry of Labor, Tokyo, 1955, p. 12.

18. "Lancashire Faces Japan," *The Economist*, London, October 27, 1951, p. 96.

19. See *International Structure of the Manufacturing Industries with Special Reference to the Textile Industry*, Mitsubishi Economic Research Institute, Tokyo, November 1955, pp. 9-15.

20. See Arthur R. Burns, *Comparative Economic Organization*, Prentice-Hall, New York, 1955, pp. 227-28.

21. Cotton fabric exports totaled 1,262 million square yards in 1956 compared with 1,278 million in 1954, while cotton yarn exports were 29 million pounds in 1954 and 27 million in 1956. See *Foreign Trade of Japan, 1957*, Ministry of International Trade and Industry, Tokyo, September 1957, p. 27.

22. *World Price Comparison of Major Commodities, as of the end of June 1956* (in Japanese), Bank of Japan, Tokyo, July 1956.

23. See *Statistical Yearbook for 1956*, Japan Iron and Steel Federation, Tokyo, 1957.

24. "The Growth of World Steel Production Since 1946," *Monthly Bulletin of Statistics*, United Nations, Vol. XI, No. 10, October 1957, pp. x, xi.

25. "Census of Manufacturing Industries for 1955," *Mitsubishi Monthly Circular*, No. 331, June 1957, p. 13.

26. *Japanese Industry—1955*, Bank of Japan, Foreign Capital Research Society, Tokyo, 1956, p. 12.

27. Figures provided by the Research Office of Yawata Steel Company.

28. Shigeo Nagano, "Raw Materials for Iron and Steel," *The Oriental Economist*, Vol. XXV, No. 563, September 1957, pp. 472-74. Mr. Nagano is president of the Fuji Iron and Steel Company.

29. "Productivity on the March," *Monthly Review*, Mitsui Bank, Vol. 2, No. 2, February 1957, p. 3.

30. See "Modernization of Iron and Steel Industry in Post-War Japan," in *Trade and Industry of Japan*, Japanese External Trade Recovery Organization, Tokyo, No. 12, May 1955, pp. 60-65; also "Japan's Technological Regeneration," *The Oriental Economist*, June 1957, pp. 291-93.

31. "Iron and Steel," *The Oriental Economist*, Vol. XXIV, No. 546, April 1956, p. 180. See also "Industrial Review—Iron and Steel," *Fuji Bank Bulletin*, Vol. VI, No. 3, December 1955, p. 18.

32. "The Development of the Machinery Industry in Japan," *Mitsubishi Monthly Circular*, No. 321, August 1956, pp. 20-21.

33. *Monthly Economic Report*, Economic Planning Agency, Tokyo, February 1957, p. 16.

34. "New Peak for Equipment Spending," *Monthly Review*, Mitsui Bank, Vol. 1, No. 6, June 1956, p. 3.

35. *Progress of Rationalization in Japan's Industry*, White Paper, Ministry of International Trade and Industry, Board of Science and Technology, Tokyo, 1956.

36. "Exchange of Notes between the Government of Japan and the Government of the United States Regarding the Productivity Program," U. S. Operations Mission to Japan, American Embassy, Tokyo, No. 1679, April 7, 1955.

37. The Dai-Ichi Bank states: "Although Japan's coal mining industry is now enjoying a favorable business, it is still faced with many pending problems, including high price, labor policy, and competition with heavy oil. Besides, Japan's coal-beds are smaller in scale and more difficult to dig than their foreign counterparts, and the quality of the coal is inferior. Therefore, Japan's coal mining industry has the disadvantage that the modernization of mining operations is limited, and accordingly, efficiency is low. In view of this situation, the Coal Mining Rationalization Law has been put into effect, aimed at solving the pending problem." See *Monthly Report on Business Conditions in Japan*, Dai-Ichi Bank, Vol. III, No. 7, December 1956, p. 3.

38. "Japan's Controls Criticized," *Financial Times*, London, June 30, 1955, p. 2.

39. Charles S. Hatton, *The Position of Small Industry in Japan*, U. S. Operations Mission to Japan, American Embassy, Tokyo, November 8, 1956.

40. See "Industrial Concentration," *The Oriental Economist*, Vol. XXV, No. 563, September 1957, p. 459.

41. *Major Energy Supplies and Demands, 1950-1956*, Ministry of International Trade and Industry, Tokyo, July 16, 1957.

42. "Postwar Development of Power Sources in Japan," *Fuji Bank Bulletin*, Vol. VIII, No. 2, June 1957, p. 28.

43. *Economic Survey of Japan, 1956-1957*, Economic Planning Agency, Tokyo, 1957, p. 19.

44. "Japan's Energy Problem," *Monthly Review*, Mitsui Bank, Vol. 2, No. 9, September 1957, p. 3.

45. See Taiji Kawamura, "Nuclear Power and Japan's Energy Problems," *The Oriental Economist*, Vol. XXV, No. 558, April 1957, pp. 198-201.

46. "Dependency on Imports," *Monthly Report on Business Conditions in Japan*, Dai-Ichi Bank, Vol. IV, No. 6, November 1957, p. 2.

47. *Economic Survey of Japan, 1956-1957*, op. cit., p. 44.

## CHAPTER VI

1. For a discussion of Japanese public finance during the thirties see Seibi



Hijikata, *Zaisei Shi* (A History of Public Finance), Tokyo, 1941. An interesting and detailed account of both monetary and fiscal policy, which takes up at the beginning of the "Manchurian Affair" period but runs through the war and the start of the Occupation, is *Manshu Jihen Igo No Zaisei Kinyu Shi* (History of Public Finance and Taxation since the Manchurian Incident), Bank of Japan, Special Research Committee, Tokyo, October 1948.

2. See Jerome B. Cohen, *Japan's Economy in War and Reconstruction*, University of Minnesota Press, 1949, pp. 85-93.

3. *Economic Statistics of Japan—1955*, Bank of Japan, Tokyo, 1956, from Table 1, p. 6, and Table 19, p. 44.

4. *Japanese Economic Statistics*, GHQ, SCAP, Research and Programs Division, April 1949, p. 110.

5. See *Postwar Inflation in Japan*, U.N. Economic Commission for Asia and the Far East, Committee on Industry and Trade, Working Party of Experts on Mobilization of Domestic Capital, Bangkok, November 24, 1951 (E/CN. 11/T & T/WP. 1/L/29).

6. See *Report on Japanese Taxation by the Shoup Mission*, GHQ, SCAP, 1949, Vol. I, p. 13.

7. *Special Monthly Economic Report*, Bank of Japan, Research Department, Tokyo, May 1949, p. 27.

8. Now chairman of the board.

9. For a summary statement by Mr. Dodge see *Nippon Times*, Tokyo, April 16, 1949, p. 1.

10. For further details see T. F. M. Adams, *Japanese Securities Markets—A Historical Survey*, Seihei Okuyama, Tokyo, 1953.

11. For further details see Jerome B. Cohen, "Fiscal Policy in Japan," *Journal of Finance*, March 1950, pp. 110-25; also Jerome B. Cohen, "Tax Revision in Japan," *Taxes, The Tax Magazine*, Commerce Clearing House, Chicago, June 1950.

12. *Economic Survey of Japan, 1950-1951*, Economic Planning Agency, Tokyo, August 1951, p. 3.

13. See *Outline of the Financial System in Japan* (revised), Bank of Japan, Economic Research Department, Tokyo, January 1955, p. 7; also "Post-war Financial System of Japan," *Survey of Japanese Finance and Industry*, Industrial Bank of Japan, Vol. VII, No. 2, March-April 1955.

14. "Joseph M. Dodge, SCAP Financial Advisor, Issues Statement," General Headquarters, Far East Command, Public Information Office, Tokyo, No. 1200, November 29, 1951, pp. 3-4.

15. See *Annual Report of the Policy Board of the Bank of Japan for 1953*, Bank of Japan, Tokyo, 1954.

16. For a detailed description see *Deflation Policy's Course since the Autumn of 1953 and Trend of Balance of International Payments*, Bank of Tokyo, Semi-Annual Report, March 1955, pp. 6-29.

17. For an excellent account of the history of money rates in Japan see "Money Rate Levels," *The Oriental Economist*, Vol. XXIV, No. 545, March 1956, pp. 114-19.

18. Large net disbursements of government funds, mainly from the For-

eign Exchange Fund, did much to ease the cash position of the banks and enable them to repay Bank of Japan advances. In Japan foreign exchange is largely held by the government in a "Foreign Exchange Fund Special Account." Thus foreign exchange receipts entail yen payments out of government funds, and foreign exchange payments result in receipt of yen funds. Excess receipts in international payments result in excess payments of yen out of government account. This is a partial explanation of the fact that the total cash transactions of the government showed a surplus for fiscal 1953-54 and a large deficit for 1954-55, as the following figures indicate:

JAPAN: CASH TRANSACTIONS OF THE GOVERNMENT AFTER ELIMINATING  
INTRA-GOVERNMENTAL TRANSFER PAYMENTS, FISCAL YEARS 1950-1956

(billion yen)

	1950/51	1951/52	1952/53	1953/54	1954/55	1955/56
Revenues	2,093.3	2,854.3	2,858.5	3,082.7	3,075.5	3,137.7
Expenditures	1,968.3	2,942.7	2,911.0	3,056.4	3,278.4	3,282.6
Balance	+ 125.0	- 88.4	- 52.5	+ 26.3	- 202.9	- 144.9

See *Nihon No Zaisei* (Japan's National Finance), Ministry of Finance Secretariat, Research Section, Tokyo, 1956, especially Chapter X, "Keizai Jiritsu To Zaisei."

19. See *Wholesale Price Index Annual, 1955*, Bank of Japan, Statistics Department, Tokyo, April 1956.

20. *Monthly Review*, Mitsui Bank, Vol. 1, No. 9, September 1956, p. 4.

21. *Annual Report of the Policy Board of the Bank of Japan for 1955*, Tokyo, 1956, p. 1.

22. See "Bank Rate Raised," *Financial Times*, London, August 10, 1955, p. 7.

23. *Monthly Review*, Mitsui Bank, Vol. 1, No. 7, July 1956, p. 5.

24. *Monthly Economic Review*, Bank of Japan, February 1957.

25. *Monthly Report of the Policy Board of the Bank of Japan*, Tokyo, December 1956.

26. *Annual Report of the Policy Board of the Bank of Japan for 1956*, Tokyo, 1957, pp. 2 and 14.

27. See "Japanese Budget Reduces Income Tax," *The Times*, London, April 2, 1957, p. 8.

28. *Monthly Report on Business Conditions in Japan*, Dai-Ichi Bank, Vol. III, No. 11, April 1957.

29. *Monthly Economic Review*, Bank of Japan, April 1957, p. 1 and 6.

30. *Nihon Keizai* (The Japan Economist), April 27, 1957.

31. "Official Rate Raise and Its Background," *Monthly Review*, Mitsui Bank, Vol. 2, No. 6, June 1957.

32. See *Monthly Economic Review*, Bank of Japan, August 1957, p. 7; also "Measures to Balance International Payments," *Nihon Keizai*, June 20, 1957; and *Monthly Report on Business Conditions in Japan*, Dai-Ichi Bank, Vol. IV, No. 3, August 1957.

33. *Nihon Keizai*, October 3, 1957.

34. *Nihon Keizai*, October 9, 1957.

35. See "Recent Expansion of the Japanese Economy and Its Equipment Investment," *Fuji Bank Bulletin*, Vol. VIII, No. 3, September 1957, p. 22.

36. See *Foreign Exchange Statistics Monthly*, Bank of Japan, August 1957. It must be remembered that the foreign exchange reserve includes over \$225 million of thus far uncollectible credits to Indonesia, Argentina, and Korea.

37. For Japanese reasoning in support of the reduction see *Rinji Zaisei Chosakai Toshin* (Final Report of the Temporary Committee on the Tax System), Tokyo, December 1956; also Saburo Shiomi, *Japan's Finance and Taxation, 1940-1956*, Columbia University Press, 1957.

## CHAPTER VII

1. *Report to the Committee on Ways and Means on United States Customs, Tariff, and Trade Agreement Laws and Their Administration from the Sub-committee on Customs, Tariffs and Reciprocal Trade Agreements*, Washington, March 8, 1957, p. 119.

2. See Shigeto Tsuru, "Employment in Japan: Present Problems and Prospects for the Coming Decade," paper read before the Ninth Annual Meeting of the Association of Asian Studies, Boston, April 1957.

3. See "Japan's Foreign Trade," *Survey of Finance and Industry*, Industrial Bank of Japan, Vol. VIII, No. 5, September-October 1956.

4. By "special procurement" is meant U. S. purchases of goods and services in Japan for military use, during and after the Korean War. It also includes troop expenditures for entertainment, recreation, etc., in Japan. More recently it has also included ICA dollar grants to Southeast Asian countries which these countries have been permitted to spend in Japan.

5. *Foreign Trade of Japan, 1957*, Ministry of International Trade and Industry, Tokyo, September 1957, p. 18.

6. *Economic Survey of Japan, 1956-1957*, Economic Planning Agency, Tokyo, 1957, p. 37.

7. "Review of Japanese Foreign Trade in 1956," *Fuji Bank Bulletin*, Vol. VIII, No. 2, June 1957.

8. "Japan's Foreign Surplus," *The Financial Times*, London, February 21, 1957, p. 2.

9. *Statistical Survey of Economy of Japan, 1956*, Ministry of Foreign Affairs, Tokyo, 1957, pp. 30-31.

10. Reasons for this action are discussed in "Review of the Japanese Economy in 1956," *Survey of Economic Conditions in Japan*, Mitsubishi Economic Research Institute, Tokyo, January 1957.

11. For an excellent discussion see "Causes of the Japanese Export Boom," an unpublished paper by Reed J. Irvine, Far Eastern Section, Division of International Finance, Board of Governors, Federal Reserve System, August 1956.

12. Ryokichi Minobe, *Japan's Foreign Trade*, Ministry of Foreign Affairs, Tokyo, 1956.

13. "The Structure of Japan's Foreign Trade before and after the War," *Semi-Annual Report*, Bank of Tokyo, March 1956, pp. 5-33.

14. See *Monthly Return of the Foreign Trade of Japan*, Ministry of Finance, Tokyo, December 1956 and January-December 1956.

15. "Exports and Imports in 1956," *Weekly Review of Economic Affairs in Japan*, Bank of Tokyo, No. 459, January 26, 1957.

16. An attempt is now under way to shift some Japanese wheat purchases from the United States to Australia.

17. Kenneth K. Kurihara, "Japan's Trade Position in a Changing World Market," *The Review of Economics and Statistics*, Vol. XXXVII, No. 4, November 1955, pp. 412-17.

18. *Economic Statistics of Japan for 1956*, Bank of Japan, Tokyo, 1957, p. 255.

19. For prewar figures see *Statistical Digest of the Japanese Cotton Industry*, Toyo Spinning Company, Institute for Economic Research; for 1956 figures see *Foreign Trade of Japan, 1957*, Ministry of International Trade and Industry, Tokyo, 1957.

20. *General Survey of the Japanese Economy*, Ministry of Finance, Tokyo, September 1957, p. 56.

21. In a report on small industry in Japan, Charles S. Hatton declares: "But within the industrial structure there exists a contracting and subcontracting system which is different from anything found in the West. Under this system large firms will subcontract such things as castings, machine parts, nuts and bolts, and finished goods of all kinds to the thousands of small manufacturers throughout Japan . . . within these small plants the emphasis is upon the use of labor, for much of the equipment is prewar, low in quality, and incapable of working to close tolerance." Charles S. Hatton, *The Position of Small Industry in Japan*, U.S. Operations Mission to Japan, Tokyo, November 8, 1956, pp. 4-5. Hatton points out that this leads to waste, rejects, excessive repairs, etc., when subcontracted parts are used in the larger firm's total product.

22. *Guide to Laws Relevant to Foreign Investment in Japan*, Ministry of Finance, Foreign Exchange Bureau, Foreign Investment Section, Tokyo, 1954.

23. As of February 1, 1958 the IBRD had granted nine loans to Japan totaling \$90 million.

24. For further details see *Manual of Foreign Exchange and Foreign Trade System in Japan*, Bank of Japan, Foreign Exchange Department, Tokyo, January 1956. See also *Report on the Japanese Exchange System and Related Matters*, Ministry of Finance, Foreign Exchange Bureau, Tokyo, June 1, 1956.

25. See Y. C. Wang, *Japan's Trade and Payments Agreements*, International Monetary Fund, Exchange Restrictions Department, Washington, July 2, 1954.

26. "Multilateral Move," by Lombard, *The Financial Times*, London, June 13, 1956, p. 3.

27. See "Foreign Exchange Controls Eased," *Weekly Review of Economic Affairs in Japan*, Bank of Tokyo, No. 441, September 15, 1956.

28. For a more extended discussion of Japanese commercial policy see "Trade and Exchange Controls," Chapter VII of *Investment in Japan*, U. S. Department of Commerce, Washington, January 1956.

29. *Japanese Economic Statistics*, Economic Planning Agency, Tokyo, No. 123-24, November-December 1956, Part II, pp. 47, 52.

30. *Monthly Bulletin of Statistics*, United Nations, March 1957, Special Table B, pp. xii, xiii.

## CHAPTER VIII

1. *Gaikoku Boeki Gaikyo* (Summary of Foreign Trade), Ministry of Finance, Tokyo, 1957.

2. *Economic Statistics Monthly*, Bank of Japan, April 1957, pp. 83-84.

3. See Kiyoshi Matsui, *Nihon Boekiron* (On Japanese Foreign Trade), Yuhikaku, Tokyo, 1956; also Ryokichi Minobe, *Japan's Foreign Trade*, Ministry of Foreign Affairs, Tokyo, 1956.

4. For a contrary view—stressing the relative unimportance of special procurement—see Nobutane Kiuchi, "False Assumptions about the Japanese Economy," *Foreign Affairs*, April 1956, pp. 459-60.

5. *Monthly Return of the Foreign Trade of Japan*, Ministry of Finance, Tokyo, December 1956 and January-December 1956, p. 13.

6. Although agricultural production in the ECAFE region (excluding the mainland of China) was at a record level in the 1955/56 crop year, exceeding the prewar average by nearly one-fifth, on a per capita basis output was still below prewar levels. See *Economic Survey of Asia and the Far East, 1956*, ECAFE, February 1957.

7. See "Basic Data on the Economy of Japan," *World Trade Information Service*, U. S. Department of Commerce, Part I, No. 55-83, Washington, August 1955, p. 21.

8. Australia was a bad example for the Japanese to advance since owing to large wool purchases Japan has had a sharply adverse balance of trade with Australia. In 1956 Japan's imports from Australia totaled \$248 million, its exports only \$31 million.

9. *Economic Statistics of Japan, 1956*, Bank of Japan, Tokyo, 1957, pp. 260 and 268.

10. "Japan's Great Opportunity: The U. S. Quality Market," *Newsweek*, December 12, 1955.

11. *Administration and Operation of Customs and Tariff Laws and the Trade Agreements Program*, Hearings before a Subcommittee of the Committee on Ways and Means, House of Representatives, 84th Cong., 2nd Sess., Part I, September 17-22, 1956, pp. 101-102.

12. See Warren S. Hunsberger, "Japanese Exports and the American Market," *Far Eastern Survey*, Vol. XXVI, No. 9, September 1957, p. 133.

13. "Blouses and Cameras," *Fortune*, April 1956, p. 85.

14. *Report of the United States Tariff Commission on Escape Clause In-*

vestigation No. 49, *Cotton Velveteen Fabrics*, Washington, October 24, 1956.

15. A safeguarding clause, commonly known as the standard escape clause, is included in most of the trade agreements that have been negotiated by the United States under the Trade Agreements Act. The standard escape clause provides, in essence, that either party to an agreement may withdraw or modify any concession made therein, if the article on which the concession was granted enters in such increasing quantities as to cause or threaten serious injury to the domestic industry producing like or directly competitive articles. Such a clause was first included in the bilateral trade agreement between the United States and Mexico in 1943. It was later included in the multilateral General Agreement on Tariffs and Trade in 1948. It was made mandatory by statute in 1951. The Trade Agreements Extension Act of 1951 made it mandatory for an escape clause to be included in all trade agreements concluded by the United States thereafter. See U. S. Tariff Commission, *Investigations Under the "Escape Clause" of Trade Agreements*, 8th ed., Washington, August 1957.

16. *Cotton Pillowcases, Report of the United States Tariff Commission on Escape Clause Investigation No. 51*, Washington, November 1956.

17. See "Japan's Quota Plan Viewed as Calculated Risk," *Topics*, American Tariff League, January 1957, p. 2.

18. A summary of both U.S. and Japanese reactions to the imposition of quotas may be found in "Japan's Export Quotas: Some Final Words," Council for Improved United States-Japanese Trade Relations, Washington, March 1957.

19. See "U.S. Shutout to Japanese Goods," *The Oriental Economist*, September 1957, p. 447.

20. *Ibid.*, p. 447.

21. *Memorandum for the Senate Committee on Finance on Senate Resolution 236, 84th Congress*, U.S. Tariff Commission, Washington, May 9, 1956, pp. 12-13.

22. Advisory Committee on Special Activities, American Bankers Association, Report of the Chairman to the Executive Council, White Sulphur Springs, West Virginia, April 14-16, 1957, p. 6.

23. Analyses of these two agreements were published by the Department of State in *Analysis of Protocol (including schedules) for Accession of Japan*, June 1955 and *Analysis of United States Negotiations, Sixth Protocol (including Schedules) of Supplementary Concessions*, June 1956. The 1955 Agreement was signed on June 8 and the tariff concessions became effective on September 10, 1955. The 1956 Agreement was signed on May 23. The first stage of the United States 1956 concessions was placed in effect on June 30, 1956. The second stage became effective on June 30, 1957, and the last stage will become effective on June 30, 1958. The concessions granted by Japan in 1956 were placed in effect on January 21, 1957.

24. *Foreign Trade of Japan, 1957*, Ministry of International Trade and Industry, Tokyo, September 1957, p. 84.

25. *Report of the 1956 United States Trade Mission to Japan*, U.S. Department of Commerce, Bureau of Foreign Commerce, Washington, May 7, 1956.

26. A discussion of the contrasts and comparisons of Japan's trade with the two countries is found in "Japanese Trade with the United States and with Communist Areas," *Mitsubishi Monthly Circular*, No. 330, May 1957, pp. 10-20.

27. David L. Cohn, "Southern Cotton and Japan," *Atlantic Monthly*, August 1956.

## CHAPTER IX

1. "Japan's Trade with Southeast Asia Region," *Fuji Bank Bulletin*, Vol. VII, No. 3, September 1956.

2. Production of cotton fabrics in the Philippines rose from 2.7 million meters in 1946 to 10.8 million meters in 1955, a fourfold increase. Output in Pakistan rose from 81 million meters in 1948 to 414 million meters in 1955, a fivefold expansion. See *Statistical Yearbook, 1956*, United Nations, p. 218.

3. "The Trade Between Japan and India," *Mitsubishi Monthly Circular*, July 1956, p. 15.

4. See *Foreign Trade of Japan, 1957*, Ministry of International Trade and Industry, Tokyo, 1957, p. 72.

5. *Economic Survey of Asia and the Far East, 1955*, ECAFE, February 1956, p. 25.

6. *Monthly Report of Japanese Cotton Spinning Industry*, All Japan Cotton Spinners Association, Tokyo, July 1955, p. 35.

7. See Dragoslav Avramovic, *Postwar Economic Growth in Southeast Asia*, International Bank for Reconstruction and Development, Washington, October 10, 1955.

8. Computed from Special Table A, "World Trade by Countries and Regions," *Monthly Bulletin of Statistics*, United Nations, February 1957, pp. viii and ix.

9. See Saburo Okita, "South and Southeast Asia and Japanese Economy," *Japan Quarterly*, published by Asahi Shimpo-Sha, Tokyo, Vol. 1, No. 1, October-December 1954, pp. 8-18.

10. There has been a very rapid expansion in both capacity and production of cotton textiles in Pakistan, and the country has almost attained self-sufficiency in coarse and medium-grade cotton cloth. As a result, raw cotton consumption in Pakistan rose from 230,000 bales in 1952/53 to 675,000 bales in 1954/55, while raw cotton exports over the same period fell from 1,275,000 to 650,000 bales.

11. See *A Statistical Survey of Trade Between Japan and Asian Countries*, Ministry of Foreign Affairs, Tokyo, 1955, p. 19.

12. *Foreign Trade of Japan, 1957*, op. cit., p. 73.

13. See *The Present Conditions of Economic Intercourse between Burma and Japan*, Mitsubishi Economic Research Institute, Tokyo, April 1956.

14. See *Economic Survey of Asia and the Far East, 1956*, ECAFE, February 1957, p. 5.

15. *Foreign Exchange Statistics Monthly*, Bank of Japan, December 1954 and December 1955.

16. *Ibid.*, December 1956.

17. See Saburo Okita, *The Rehabilitation of Japan's Economy and Asia*, Ministry of Foreign Affairs, Tokyo, 1956.

18. See *Monthly Economic Review*, Bank of Japan, July 1956, pp. 4-5. For details of the first year's Japan-Philippines reparations schedule see *Weekly Review of Economic Affairs in Japan*, Bank of Tokyo, No. 455, December 22, 1956.

19. See S. A. Abbas, *Capital Requirements for the Development of South and Southeast Asia*, Netherlands Economic Institute, J. B. Wolters, Groningen, 1956.

20. *Measures for the Economic Development of Underdeveloped Countries*, United Nations, 1951.

21. Shigeru Fujii, "The Scale and Speed of Economic Development in Asian Countries," *Asian Affairs*, published by Asia Kyokai, Tokyo, Vol. 1, No. 1, March 1956, p. 16; see also "The Problems of Capital Formation and Accumulation in the Backward Countries of Asia," *The Economic Review*, Hitotsubashi University, Tokyo, Vol. 4, No. 1.

22. *Kaigai Toshi Kyoka Ichiranhyo* (History of Approved Foreign Investments), Bank of Japan, Foreign Exchange Control Bureau, Tokyo, 1956.

23. The bank will lend money for the development of Indonesia's petroleum industry, inter-island shipping services, etc. Guarantees were given that the Japanese investment in the bank will not form part of Japanese reparations to Indonesia. See *The Nippon Times*, Tokyo, April 26, 1956.

24. Overseas activity of the Japanese is not limited to Southeast Asia. It has spread to the Middle East, Africa, Latin America, and even Alaska. In the Middle East, for example, the Japanese-owned Arabian Oil Company signed a precedent-shattering 44-56 percent oil royalty arrangement for concessions in Saudi Arabia, and has made the same proposals to Kuwait for offshore oil exploration concessions. Japanese construction firms entered a bid to rebuild the Hejaz rail line, which runs through Jordan between Damascus, Syria, and Media in Saudi Arabia. A three-man survey team from the Egyptian Aswan Dam Commission visited Japan to inspect Japan's hydroelectric projects and to enlist Japanese technical assistance.

25. In this field, too, Japanese activities have by no means been confined to Southeast Asia. The Mitsubishi Metal Mining Company is also looking into iron mine development in Chile. Japanese engineers are now examining a proposal from Portuguese Guinea in West Africa to participate in the development of tin mines. A joint Japanese-Brazilian steel mill is being erected in the state of Minas Gerais.

26. In September 1956 Japan established the Technical Cooperation Company. The occasion for this was the request of South Vietnam for Japanese technical assistance. The company's capital was provided by 37 private Japanese companies, mainly heavy industry and chemical firms. See "The Current State of Japan's Overseas Investments," *Fuji Bank Bulletin*, Vol. VIII, No. 1, March 1957, p. 20.



27. "New Japanese Export Policy," *The Financial Times*, London, April 2, 1957, p. 2.

## CHAPTER X

1. See Chapter II, "The Battle Act and International Controls," in *The Strategic Trade Control System, 1948-1956*, Ninth Report to Congress by the Director of the International Cooperation Administration under the Mutual Defense Assistance Control Act of 1951, Washington, June 28, 1957.

2. For further details see section on "East-West Trade" in *Staff Papers Presented to the Commission on Foreign Economic Policy*, Washington, February 1954, pp. 440-52.

3. *The Strategic Trade Control System, 1948-1956*, op. cit., p. 38.

4. "Made in Moscow—But There's No Ideology in Products," *Journal of Finance and Commerce*, Tokyo, February 15, 1952, p. 1.

5. *The Oriental Economist*, January 26, 1952, p. 69. For a detailed discussion of the nature of Japanese trade with the Soviet bloc and Communist China through 1950 and the relative advantages and disadvantages thereof, see National Security Council Determination, No. 20, "Report by the National Security Council on the Trade of Japan and the Ryukyu Islands with the Soviet Bloc and Communist China" (unclassified), Washington, September 27, 1951.

6. See "British Say Japan Needs China Trade," *New York Times*, September 18, 1951; "Japan and China," *The Economist*, London, February 9, 1952, p. 328; "Eden Reported Insisting Japan Trade With Reds," *New York Herald Tribune*, January 12, 1952.

7. *New York Times*, March 28, 1955.

8. "Japanese Minister Urges Increased Trade with China," *Nihon Keizai*, Tokyo, June 25, 1956. See also "Trading with China" by Tanzan Ishibashi, *The Oriental Economist*, August 1956, pp. 396-97.

9. See G. C. Allen, *A Short Economic History of Japan*, London, 1946, pp. 86-89.

10. See "Present Status of Japanese Trade With China," *Mitsubishi Monthly Circular*, No. 311, October 1955, pp. 11-22.

11. "The Trend of Japan-China Trade," *Fuji Bank Bulletin*, Vol. VII, No. 4, December 1956, pp. 7-16.

12. See Alexander Eckstein, "Sino-Soviet Economic Relations," in *Moscow-Peking Axis: Strengths and Strains*, Harper and Brothers for Council on Foreign Relations, New York, 1957.

13. See Chapter 9, "Manchuria: Industrial Development and External Trade under Japanese Occupation, 1932-45," especially Section IV, "Manchuria's Import Excess and Japanese Investments in Manchuria," in Yu-kwei Cheng, *Foreign Trade and Industrial Development of China*, The University Press of Washington, D. C., 1956.

14. *Economic Survey of Asia and the Far East, 1956*, ECAFE, February 1957, p. 89.

15. See *Prospects for Communist China* by W. W. Rostow, in collaboration with Richard W. Hatch, Frank A. Kiernan, Jr., and Alexander Eckstein, Technology Press and John Wiley & Sons, New York, 1954. See also Alexander Eckstein, "Conditions and Prospects for Economic Growth in Communist China," *World Politics*, Vol. VII, No. 1, October 1954, pp. 1-37; No. 2, February 1955, pp. 255-83; No. 3 April 1955, pp. 434-47.

16. See "Trade with Communist China," *The Oriental Economist*, Vol. XXIV, No. 548, June 1956, p. 269.

17. Similar agreements have been signed between private Japanese groups and six other Communist countries—North Korea, North Vietnam, East Germany, Hungary, Bulgaria, and Rumania.

18. "Trade With Communist China," *The Oriental Economist*, Vol. XXIV, No. 548, June 1956, p. 269.

19. See *Foreign Trade of Japan, 1957*, Foreign Trade White Paper, Ministry of International Trade and Industry, Tokyo, Tables 124 and 125, p. 66.

20. See "Present Status of Japanese Trade With China," loc. cit., pp. 21-22.

21. See *Economic Survey of Asia and the Far East, 1955*, ECAFE, February 1956, Table 35, p. 82.

22. *The Oriental Economist*, Vol. XXV, No. 563, September 1957, pp. 478-79.

23. "China Again Faces Danger of Famine," *New York Times*, December 5, 1956.

24. *New York Times*, October 13, 1957.

25. "Red China Seen in Key Role by '67—Long Range Economic Plans Would Make It a Major Power Within Decade," *New York Times*, May 13, 1956.

26. Actual production in 1952 was 1.35 million tons. See *Economic Survey of Asia and the Far East, 1955*, op. cit., Table 37, p. 84. This table compares actual production of a long list of products in 1952 with 1957 First Five-Year Plan targets.

27. *Economic Survey of Asia and the Far East, 1956*, ECAFE, February 1957, p. 92. Commenting on the 35 percent prospective increase in agricultural output under the second Five-Year Plan, the report notes: "The chief emphasis is upon improving the yield per hectare of grain and other crops—apparently, however, without the extensive use of chemical fertilizers, since the provision of locally produced chemical fertilizers, according to the 1962 target, will be only about 30 kg. per hectare."

28. See George Waldstein, "Showdown in the Orient," *Harvard Business Review*, November-December 1954, pp. 113-20.

29. See *Monthly Return of the Foreign Trade of Japan*, December 1956 and January-December 1956, Ministry of Finance, Tokyo, 1957.

30. "Sino-Soviet Economic Relations," loc. cit., p. 32.

31. For a confirmation of this estimate by a leading Japanese economist see *The Rehabilitation of Japan's Economy and Asia* by Saburo Okita, Chief, Planning Division, Economic Planning Board, published by Ministry of Foreign Affairs, Tokyo, 1956. Okita declared (pp. 11-12): "But judging from Japan's previously mentioned prewar China trade records and from the

fact that since the end of the war Communist China has expanded its trade with the Soviet bloc and at the same time has checked imports of consumer materials and goods, thus eliminating all signs of monopolistic trade formerly enjoyed by Japan, it would be a mistake, objectively speaking, to place too much hope on Japan's future trade with Communist China. Even though the restrictions on the trade with Communist China are lifted in the future, it must not be overlooked that considerable limitations on the types of goods and the amount of such goods which Communist China can export to Japan are to be expected. For instance, the principal materials which Japan could hope to import from Communist China are iron ore, coal, salt, soyabean, and animal feed, but even though Japan obtained all of her imports of such materials from Communist China, this would amount to less than 10 percent in value of her total imports. If rice and raw cotton can also be imported, then the amount of trade would be quite large, but judging from the large domestic demand in Communist China, it is doubtful whether there is room for sizeable exports of these goods. In the case of rice, if Japan increases her imports from Communist China and if this means a reduction in imports from Thailand and Burma, Japan's exports to these latter two countries would naturally suffer. On the whole, therefore, Japan would not necessarily profit from trade with Communist China. Viewed in the light of the foregoing facts even if the Japan-Communist China trade is made completely free, it is not expected to account for a large percentage of Japan's total trade, 10 percent being a likely figure."

32. "Japan Sees Trade Periled by China," *New York Times*, October 28, 1957.

33. "Ceylon's Dilemma," *The Economist*, London, August 31, 1957, p. 675.

## CHAPTER XI

1. Ryotaro Iwai, *Senso To Zaibatsu* (War and the Zaibatsu), Chikura Shoho, Tokyo, 1938.

2. Kiyooki Tsuji, "The Cabinet, Administrative Organization, and the Bureaucracy," in *Japan Since Recovery of Independence: Annals of the American Academy of Political and Social Science*, November 1956, p. 13.

3. Chitoshi Yanaga, "Government," Chapter XI in *Japan*, edited by Hugh Borton, Cornell University Press, 1951, pp. 144-45.

4. Tsuji, loc. cit., p. 17; see also his *Nihon Kanryosei No Kenkyu* (Studies on Japanese Bureaucracy), Tokyo, 1952, and his "Oshoku To Kanryosei" (Scandals and the Bureaucratic System) in *Horitsu Jiho* (Law Review), Tokyo, May 1955. Dr. Tsuji is professor of political science and public administration at Tokyo University. He is also director of the Japan Public Administration Society.

5. *Mitsui-Mitsubishi-Sumitomo: Present Status of the Former Zaibatsu Enterprises*, Mitsubishi Economic Research Institute, Tokyo, 1955, p. v.

6. *Contemporary Japan*, Tokyo, Vol. XVII, Nos. 1-3, January-March 1948, p. 97.

7. *Mission and Accomplishments of the Supreme Commander for the Allied Powers in the Economic, Scientific and Natural Resources Fields*, GHQ, SCAP, Economic and Scientific Section, Programs and Statistics Division, April 28, 1952, p. 35.

8. *Report of the Mission on Japanese Combines*, A Report to the Department of State and the War Department, Part I, Analytical and Technical Data, Washington, March 1946, p. vii.

9. Takao Tsuchiya, "Nihon Zaibatsu Shiron" (An Essay on the Japanese Zaibatsu), *Chuo Koron*, Tokyo, July 1946.

10. See "Cartelization Progressing," *The Oriental Economist*, April 1956, pp. 165-68. The Japanese journal *Fair Trade*, June 1956 issue, contains a useful bibliography of essays and articles pertaining to the Zaibatsu and to the Anti-Monopoly Law, which appeared in Japanese economic and financial journals over the period 1948-1955.

11. Ordinance No. 233, April 20, 1946, *Official Gazette*, No. 14, April 20, 1946.

12. *Nihon Zaibatsu To Sono Kaitai* (Japanese Zaibatsu and Their Liquidation), Holding Company Liquidation Commission, Tokyo, 1950, 2 vols. Vol. I describes the development of the Zaibatsu; Vol. II deals with their liquidation.

13. "Elimination of Excessive Concentration of Economic Power Law—Its Significance and Application," *Mitsubishi Monthly Circular*, No. 223, June 1948, p. 25.

14. Approved by the National Diet on December 9, 1947.

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5. The offending matches had been manufactured in Japan for sale in China, where it was assumed by the ingenious Japanese manufacturer that the sentiment would be thoroughly popular. But an attempt by Chinese authorities to mollify the Japanese by forbidding manifestations of ill will toward Japan prevented the matches from being imported into China, and they had to be sold at reduced prices to Japanese dealers.

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10. As was seen in the previous chapter, there has been a recent polarization in Japanese politics rather than a political fragmentation as in France. Whether for better or worse, one does *not* find in Japan the humorous political mélange of Conservative Radicals, Radical Conservatives, Right Centrists, Left Centrists, Christian Atheists, Christian Christians, Christian Communists, Proto-Communists, Neo-Communists, etc., which John Steinbeck developed in his frothy extravaganza about French politics, *The Short Reign of Pippin IV*, Viking Press, New York, 1957, p. 33.

11. The eight-point program adopted as the Socialists' foreign policy if they should win power is as follows: (1) Termination of the Japanese-United States security treaty and immediate withdrawal of all United States military units. (2) Revision of the 1951 San Francisco peace treaty. (3) Full economic cooperation with the Soviet Union. (4) The immediate return to Japan of Okinawa and the other Ryukyu and Bonin Islands. (5) Recognition of Communist China and establishment of diplomatic relations with Peiping. (6) Early settlement of problems between Japan and South Korea and peaceful unification of Korea. (7) Close economic cooperation with Southeast Asian nations but without any financial assistance from the United States. (8) Imposition of an international ban on the testing or use of nuclear weapons and absolute prohibition of their introduction into Japan.

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